S. HRG. 98-475

STRATEGIC PETROLEUM RESERVE AND THE DEPARTMENT OF ENERGY'S BASELINE ASSESSMENT

HEARING

BEFORE THE

SUBCOMMITTEE ON
ENERGY AND MINERAL RESOURCES

OF THE

COMMITTEE ON
ENERGY AND NATURAL RESOURCES
UNITED STATES SENATE

NINETY-EIGHTH CONGRESS

FIRST SESSION

TO EXAMINE THE STRATEGIC PETROLEUM RESERVE AND THE DEPARTMENT OF ENERGY'S BASELINE ASSESSMENT OF THE SPR PROGRAM

NOVEMBER 10, 1983

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CONTENTS

STATEMENTS

	Page
La Grone, Joe, Manager, Oak Ridge Operations, Department of Energy; accompanied by John T. Milloway, chairman, SPR Task Force, Oak Ridge Operations Office	2
Warner, Hon. John W., a U.S. Senator from the State of Virginia	1

APPENDIXES

Appendix I

Responses from Mr. La Grone to additional questions 41

Appendix II

Excerpts from the Department of Energy's Report "Baseline Assessment of the Strategic Petroleum Reserve Project Management Office" 67

STRATEGIC PETROLEUM RESERVE AND THE DEPARTMENT OF ENERGY'S BASELINE ASSESSMENT

THURSDAY, NOVEMBER 10, 1983

U.S. SENATE,
SUBCOMMITTEE ON ENERGY AND MINERAL RESOURCES,
COMMITTEE ON ENERGY AND NATURAL RESOURCES,
Washington, D.C.

The subcommittee met, pursuant to notice, at 9:10 a.m., in room SD-366, Dirksen Office Building, Hon. John W. Warner, presiding.

Present: Senators Warner and Hecht.

Also present: Roger Sindelar, counsel; and James T. Bruce, counsel for the minority.

OPENING STATEMENT OF HON. JOHN W. WARNER, A U.S. SENATOR FROM THE STATE OF VIRGINIA

Senator WARNER. Today the Senate Subcommittee on Energy and Mineral Resources holds another oversight hearing on the strategic petroleum reserve of the United States. In this hearing the subcommittee will receive testimony from the Department of Energy on its "Baseline Assessment of the Strategic Petroleum Reserve Project Management Office" which was published on October 24, 1983.

Almost from the day it was created the SPR has been engulfed in controversy. Rumors and allegations have abounded concerning the program. The program's management, quality of its oil, ability to adequately deliver fuel at needed times, funding, security and use are a few of the areas that have been questioned many times.

It is the opinion of this Senator that the SPR presents America's first line of defense in any foreseeable energy emergency and should be used expediently and judiciously to blunt any impact created by such emergency.

Like our military defense, our energy defense must be preserved and protected. Thus, when any allegations are raised that our defenses are inadequate, these allegations must be investigated quickly and if needed responsible corrective action must be undertaken to correct any inadequacies that are found.

To Secretary of Energy Hodel's credit, upon hearing of allegations raised about the SPR program, he took immediate and forceful actions to investigate these allegations.

In June the Secretary announced that he was reassigning the management of the SPR project office from New Orleans to the Oak Ridge Operations Office in Oak Ridge, Tenn. Concurrently, a

task force was set up to review the SPR project management office in New Orleans and conduct a full review of all allegations of mismanagement and misconduct since the inception of the program in 1977.

This reviewed produced the 307-page baseline assessment which is the focus of today's hearing. The assessment outlines in great detail problems that have existed in the program in the areas of management, security, safety, and maintenance.

While the assessment is highly critical of past SPR practices, nowhere does it state or imply that such practices have yet cast doubt on the program's viability.

What the assessment does implicitly state is that for the program to carry out the purposes and goals that Congress intended, these problems must be corrected quickly.

I want to state here and now that this subcommittee will scrutinize the efforts undertaken by the program and the Department of Energy to correct these problems in an expedient manner.

Today DOE will present testimony on the actions they are implementing toward this goal.

Speaking for the Department of Energy today we have Mr. Joe La Grone, manager of the Oak Ridge operations, accompanied by Mr. John T. Milloway.

It is the Chair's understanding that the House representatives held a hearing yesterday and that basically this information is now on public record. As such we will do what is necessary to duplicate that record here in the Senate. We will not prolong the proceedings this morning, due to the fact that there has already been a full disclosure.

You have a full statement which we will incorporate into the record in its entirety and you have a brief statement which you will now present.

It is the Chair's understanding that yesterday it was felt necessary by the House to go into executive session and the Senate will do likewise today. We hope, however, you will put as much as possible into the session this morning. You may proceed.

STATEMENT OF JOE LA GRONE, MANAGER, OAK RIDGE OPERATIONS, DEPARTMENT OF ENERGY, ACCOMPANIED BY JOHN T. MILLOWAY, CHAIRMAN, SPR TASK FORCE, OAK RIDGE OPERATIONS OFFICE

Mr. LA GRONE. Thank you, Mr. Chairman. I do have a statement for the record which I would like with your permission, to summarize briefly the highlights of that statement.

We are pleased to appear before the committee this morning to discuss our activities and the review we have conducted and the report that has been furnished to this committee. With me is John Milloway who has served as chairman of the task force. His normal responsibilities are as assistant manager for construction and engineering at the Oak Ridge operations office.

When Secretary Hodel reassigned this project for field management oversight to Oak Ridge in June, we established a multidisciplinary task force to go and look at the SPR, to do a baseline assessment of the management systems, to look into the allegations

of waste, fraud, abuse, misconduct, mismanagement, property inventory, and so forth.

What we have today is the management assessment that basically deals with the systems, property, procurement, contracts, project management, security, fire safety, environment. maintenance, and a variety of other tasks. The activity that deals with allegations of misconduct and mismanagement since the inception is the subject of a separate report which we expect to submit in December.

On that point, I would inform the committee that we have to date put together a list of about 700 allegations which go back to 1977. There are duplicates in this list, and we are weeding out those duplicates. We have computerized those allegations. We have categorized them and are prioritizing them in terms of ones which have or potentially have the greatest impact in terms of cost and performance and are working our way through that.

This entails working with witnesses who have made allegations and trying to determine which of these allegations are of substance, concern a problem that has been identified, and, if real, have they been cured or do they persist. But today we prefer to talk about the management aspects of it and make the subjects of misconduct and mismanagement a separate report to you.

Along with performing this particular task of looking into SPR, we have negotiated with the Assistant Secretary of Environmental Protection Safety, and Emergency Preparedness a management agreement that delineates the responsibilities of the Washington office as well as the responsibility of the Oak Ridge office. It provides a basis for identifying who are the players, our roles, relationships, and responsibilities, so that we have good lines of communications and we know who is responsible for executing what part of the project.

Basically the policy actions, budget defense, interface with the Congress and OMB is reserved for the Washington office. The field office being involved in making sure the project happens; that fill takes place, and that maintenance and those kinds of things proceed.

I would like to assure this committee that SPR under our leadership will be managed as efficiently and as effectively as possible. And in this regard, I have informed the employees of New Orleans that there are no plans by the Oak Ridge operations office to move any of the employees from New Orleans back to Oak Ridge.

It is our judgment that this would exacerbate morale problems that have already occurred by downgrading of employees through the OPM reviews that were done.

One of our major commitments is to try to restore and rebuild morale so that it will contribute more effectively to the execution of this project.

The baseline assessment, which is before you this morning, prepared by our office, in my judgment provides a thorough and comprehensive inventory of the management issues that relate to the SPR under this and previous administrations. The report provides me and others in the department with a comprehensive assessment of the management tasks and recommendations for the long-term management of the SPR.

Information contained in this report was gathered through a number of methods, onsite interviews, discussions, reading of reports, and visits to New Orleans and all the project sites. Beyond that a draft of this report was reviewed with the senior management of the project office. Discussions were held, comments were taken under consideration, areas of factual difference were reconciled before this report was published.

There are some philosophical differences, and we fully would expect that to be the case. With respect to the SPR, as you know in the report, the task force has made findings during this review which indicate the oil now in storage can, in fact, be withdrawn. However, confidence levels vary for each of these sites as to the ability to react to and to sustain a drawdown.

The report concludes that if the reserve is to remain operable and is to provide protection for import disruptions in the next decade and beyond, then certain practices and procedures must be offered now to assure long-term readiness for a drawdown.

The key problems reflected in the report include the following: Management objectives, we believe, are too narrow. While oil in the ground is important and represents a mandate from the Congress, we believe there are at least two other elements that should be added to the management objectives. One is to maintain readiness for drawdown. A second is to use more effective and more efficient business management systems.

A second point, management effort is fragmented. Further maintenance has not been adequate for project life. Property management has not been adequate. Audit coverage and resolution have not been adequate. Procurement policies have not been followed carefully. Security implementation at sites is in a catchup mode. Fire protection, we believe, has not been given adequate priority. Financial management needs improvement.

The modifications and upgrades program has not been pursued aggressively. Finally, the project management systems imposed have been too restrictive.

We have had a dialog and have briefed here in Washington the Assistant Secretary for Management and Administration; the Director of Procurement, the Assistant Secretary for Environmental Protection, Safety, and Emergency Preparedness, and the Inspector General, as well as the Secretary of Energy.

On balance, the report has been viewed as a most useful tool for focusing the Department's attention on the execution of our emergency preparedness mandate.

I have directed Mr. Milloway, as chairman of the task force and as the acting assistant manager for SPR operations at Oak Ridge operations, to proceed expeditiously with the implementation of the 170 recommendations that are identified in this report, and to do it on a schedule and in a manner that increasingly will enhance the operational readiness and reliability of the reserve.

In particular, we are focusing on taking advantage of lessons learned, to apply those lessons learned to the Big Hill site.

In concluding, I would say significant achievements have been made in the SPR project. Over 365 million barrels of oil are now in storage representing over 90 days' protection against a near total interruption of imports. Oil fill for fiscal year 1983 exceeded the

congressional mandate of 220,000 barrels per day. The identification of deficiencies in the reserve attributable to the project is not intended in any way to diminish the effort expended toward the planning and implementation of this project.

It is my commitment that through renewed management efforts and teaming Oak Ridge staff with the project management office staff in New Orleans the reserve will continue to meet the objectives for which it was planned.

This concludes my prepared statement, Mr. Chairman, and we would be pleased to respond to any questions you have.

[The prepared statement of Mr. La Grone follows:]

29-227 O—84—2

STATEMENT OF

JOE LA GRONE
MANAGER, OAK RIDGE OPERATIONS
DEPARTMENT OF ENERGY

INTRODUCTION

Mr. Chairman and members of the Subcommittee, I am pleased to appear before you today to discuss the Strategic Petroleum Reserve (SPR) project, and the activities of the SPR Task Force. I am accompanied today by John T. Milloway, Chairman of the SPR Task Force and who on a day-to-day basis heads the SPR organization at Oak Ridge Operations Office.

REORGANIZATION OF THE SPR

On June 15, 1983, the Secretary of Energy announced a reorganization of management for the SPR. Overall responsibility for management of the Strategic Petroleum Reserve Project Office (SPRPMO) in New Orleans was assigned to the Oak Ridge Operations Office with the direction that we conduct a complete management review of the SPRPMO.

In this regard, our first action was to establish a multidisciplinary Task Force under a charter (copy attached as Exhibit 1) which included direction to conduct a review of the SPRPMO, and to prepare a report which would establish a baseline of the Project Management Office's (PMO) status at the time of this management transition. This Task Force, chaired by Mr. Milloway, has completed the initial phase of its review which resulted in the "Baseline Assessment of the SPRPMO," ORO-838, which has previously been furnished to

the Subcommittee members. In the near future, the Task Force will be completing the next phase of its review, a report on all allegations of mismanagement and misconduct since inception of the program in 1977.

Concurrently with performing the Task Force review, we negotiated a Management Agreement for the SPR Program (copy attached as Exhibit 2). The Agreement between the Assistant Secretary, Environmental Protection, Safety and Emergency Preparedness, and the Manager, Oak Ridge Operations, was executed on August 9, 1983. Under that agreement, overall programmatic responsibility for achieving the goals and objectives of the SPR was retained by the Assistant Secretary for Environmental Protection, Safety and Emergency Preparedness. The Manager, ORO, is responsible for SPR Project implementation and project management activities. Project implementation activities are managed through delegations of responsibility to designated personnel at Oak Ridge and the site project offices, and are performed within budgets, policies, and programmatic guidance delegated to the Deputy Assistant Secretary. A similar management agreement will soon be negotiated between Oak Ridge and the New Orleans site office.

ORO MANAGEMENT OF THE SPR

As a first step leading to establishment of a permanent organization structure at Oak Ridge, all management functions

involving the Project were placed under the direction of John T. Milloway who serves on an interim basis as Acting Assistant Manager, SPR. In this capacity, Mr. Milloway has responsibility for providing overall management direction to the New Orleans site office, initiating improvements in management systems, and implementing the SPR Task Force findings and recommendations. His experience as Assistant Manager for Construction and Engineering and as Task Force Chairman makes him highly qualified for this role. Mr. Milloway is supported by a small interim staff and is being provided substantial support from ORO matrix organizations pending selection of a permanent Assistant Manager for the SPR. Mr. Milloway will continue to head the SPR Task Force until its work is completed.

In this respect, Mr. Milloway's organization with the involvement and participation of PMO staff is developing an implementation plan for the 170 recommendations contained in the Baseline Management Report. The recommendations are being prioritized for action and will be tracked until close-out.

Let me assure you that the SPR will be managed as efficiently as possible. In this regard, I will not be moving Federal employees from New Orleans to Oak Ridge. Such an action would only exacerbate some of the management problems identified in the Report.

BASELINE MANAGEMENT ASSESSMENT

The "Baseline Assessment of the SPRPMO" prepared by the Oak Ridge SPR Task Force provides a thorough and comprehensive inventory of management issues relating to the SPR under this and previous Administrations. The report provides me, and others in the Department, with a comprehensive assessment of management tasks and recommendations for the long-term management of the SPR.

Information contained in this Report was gathered by Task Force members who were experienced in their assigned areas. Members of the Task Force visited the PMO in New Orleans as well a each of the sites. Numerous interviews were conducted with most levels of the PMO personnel and a substantial amount of documentation was provided to the Task Force for review. Special expertise from ORO matrix organizations was also utilized in acquisition and analyses of subject information and in preparation of specific sections of the Report.

The PMO senior staff was allowed to review and comment on the draft report. Their comments were given consideration by the Task Force. Factual issues were reconciled prior to finalizing the Report.

With respect to the SPR, the Task Force "has made findings during this review which indicate the oil now in storage can

be withdrawn. However, confidence levels vary for each site as to the ability to react to and sustain a drawdown." The Report concludes that "If the Reserve is to remain operable and provide protection from import disruptions in the next decade and beyond, then certain practices and procedures must be altered now to assure long-term readiness for a drawdown."

Key problems identified in the report include:

- o Management objectives too narrow
- o Management effort fragmented
- o Maintenance not adequate for project life
- o Property management not adequate
- o Procurement policies not carefully followed
- o Audit coverage and resolution inadequate
- o Security implementation at sites in a catch-up mode
- o Fire protection not given adequate priority
- o Financial management needs improvement
- o Modifications and upgrades not aggressively pursued
- o Project Management systems imposed by PMO too restrictive

To initiate dialogue and understanding on the issues identified in the Report, briefings were held within DOE for the Assistant Secretary for Management and Administration, the Director of Administration, the Director of Procurement and Assistance Management, the Assistant Secretary for Environmental Protection and Emergency Preparedness, the Inspector General, as well as the Secretary of Energy. On balance, the report was viewed as a most useful tool for focusing the Department's attention on the execution of our emergency preparedness mandate.

Accordingly, I have directed Mr. Milloway to proceed with the implementation of the recommendations as expeditiously as possible and on a schedule and in a manner that will increasingly enhance the operational readiness and reliability of the Reserve.

CONCLUSION

Significant achievements have been made in the SPR Project. Over 365 million barrels of oil are in storage representing over 90 days protection against a near total interruption of imports. Oil fill for FY 1983 exceeded the Congressional mandate of 220,000 barrels per day. The identification of deficiencies in the Reserve attributable to PMO is not intended to diminish the effort expended toward the planning and implementation of the Project. It is my commitment that through renewed management efforts and teaming Oak Ridge staff with the PMO staff that the Reserve will continue to meet the objectives for which it was planned. This concludes my prepared statement, Mr. Chairman, and I would be pleased to respond to questions from the Subcommittee.

EXHIBIT 1

Department of Energy
Oak Ridge Operations
P.O. Box E
Oak Ridge, Tennessee 37830

June 22, 1983

John T. Milloway, Chairman
Strategic Petroleum Reserve Task Force

ORO SPRO TASK FORCE

As you know, on June 15, 1983, Secretary Hodel assigned management of the Strategic Petroleum Reserve Project Office to the Oak Ridge Operations Office. Consistent with that reassignment and his direction to me, I am hereby establishing an ORO Task Force which is chartered to conduct a full and complete review of all allegations of mismanagement and misconduct since inception of the program in 1977. I am designating you as Chairman of the ORO Task Force; the other members of the Task Force are set forth in the attachment to this memorandum. Accordingly, the Task Force is directed to conduct a comprehensive examination and inventory of all SPR accounts, property and product.

In carrying out this review, the Task Force shall make onsite visits to the SPRO, all locations where product and equipment are stored, to offices of the principal contractor and support contractors, to offices of other Government agencies supporting SPRO, to appropriate offices at Headquarters, as necessary, and shall draw upon reports, reviews, audits and investigations previously performed by the DOE Inspector General, the GAO, the Congress and the DCAA.

With respect to each allegation of misconduct and mismanagement, as well as deficiencies discovered by the Task Force, the Task Force shall determine what actions have been taken as well as prepare recommendations for additional corrective actions that should be undertaken. Regarding the latter, the Task Force should also develop recommendations with respect to the appropriate organization of the work as well as reporting relationships and any other matters that will enhance the successful management and execution of our responsibilities. The Task Force's review should extend to and include, but not be limited to, the following areas:

Procurement; construction and project management; management systems; financial records and systems; property controls; security; safety; operations; quality control; and product inventory.

John T. Milloway June 22, 1983

The Task Force is authorized to draw upon any available expertise within ORO and is further authorized to acquire, through appropriate contractual arrangements, expertise and services that are beyond ORO resources and which are essential to completing the work of the Task Force.

The Task Force is further directed to brief me on a weekly basis with respect to findings and progress so that I may stay currently abreast of developments as well as keep the Secretary fully informed. I should be informed at once should information be developed that would require immediate action. Once the Task Force has had an opportunity to better understand the scope of this assignment, it is also directed to propose to me a schedule for completion of the activities. With respect to the foregoing, the Task Force is also directed to prepare a comprehensive report on findings and recommendations.

I sincerely appreciate your help in undertaking this most important task.

Joe La Grone
Manager

Enclosure:
Listing of Members of the Task Force

29-227 O—84——3

SPR TASK FORCE

Chairman:	John T. Milloway, Assistant Manager for Construction & Engineering, CE-50
Vice-Chairman:	John S. Frazier, Director, Office of Performance Evaluation, PE-10
Members:	Michael L. Eastman, Project Engineer, Construction Division, CE-51
	George C. Grisaffe, Assistant Director for Administration & Contract Management, CRBR Project, CR-71
	Barry W. Krause, Chief, Personnel Security Branch, Safeguards & Security Division, DP-822
	Kenneth F. Leifheit, Chief, Safety & Fire Protection Branch, Safety & Environmental Control Division, SE-333
	Elden L. Carter, Chief, Contract Finance Branch, Finance Division, AD-433
	John A. Meredith, Industrial Property Management Specialist, Property Management Branch, Supply Division, AD-462
	Freddie P. Horne, Supervisory Management Analyst, Office of Performance Evaluation, PE-10?
	Challis Broughton, Management Analyst, Office of Performance Evaluation, PE-103
	H. Jackson Hale, Deputy Assistant Director for Construction, CRBR Project, CR-72
	Gary E. Chaffins, Contractor Industrial Relations Specialist, Industrial Personnel Branch, Organization & Personnel Division, AD-44?
	Willis Davis, Chief, Special Projects Branch, Procurement and Contracts Division, AD-422
	David G. Darugh, Attorney, Office of Chief Counsel, CC-10

EXHIBIT 2

MANAGEMENT AGREEMENT

FOR THE

STRATEGIC PETROLEUM RESERVE PROGRAM

between

Assistant Secretary,
Environmental Protection, Safety and Emergency Preparedness

and

Manager,
Oak Ridge Operations Office

Recommended by:

Richard D. Furiga
Deputy Assistant Secretary
Strategic Petroleum Reserve

8-9-83
Date

Recommended by:

James H. Hill
Deputy Manager
Oak Ridge Operations Office

8-4-83
Date

Approved:

William A. Vaughan
Assistant Secretary
Environmental Protection, Safety
and Emergency Preparedness

8/9/83
Date

Approved:

Joe La Grone
Manager
Oak Ridge Operations Office

8/5/83
Date

Management Agreement for
The Strategic Petroleum Reserve Program
Between the Assistant Secretary,
Environmental Protection, Safety, and Emergency Preparedness
and Oak Ridge Operations Office

I. Scope

This Management Agreement sets forth the interfaces between the Assistant Secretary, Environmental Protection, Safety, and Emergency Preparedness and Oak Ridge Operations Office and their respective areas of responsibility within the Strategic Petroleum Reserve Program.

II. General Management Approach

The Strategic Petroleum Reserve is a designated major systems acquisition and is managed in accordance with this agreement. Overall programmatic responsibility for achieving the goals and objectives for the Strategic Petroleum Reserve has been delegated to the Assistant Secretary for Environmental Protection, Safety, and Emergency Preparedness. The Assistant Secretary for Environmental Protection, Safety, and Emergency Preparedness delegated the responsibility and authority for program management to the Deputy Assistant Secretary for the Strategic Petroleum Reserve (DAS/SPR). This includes planning the overall program and issuing Program/Project Plans, which establishes priorities, provides policy and overall guidance, establishes the technical performance, scope, cost and schedule requirements, controls key milestones, integrates all

elements of the program, provides public/private sector policy liaison, expedites Headquarters interface activities and follow-up actions, and retains overall accountability for program success. The DAS/SPR shall also have responsibility for budgetary and legislative interfaces, and for maintaining programmatic oversight of key budget, schedule, cost and program milestones.

Overall responsibility for SPR project implementation and project management activities is assigned to the Manager, Oak Ridge Operations Office (OROO). These project implementation activities shall be managed through delegations of responsibility to designated personnel at Oak Ridge and the site project offices, and will be performed within budgets, policies, and programmatic guidance provided by the DAS/SPR. The Manager, OROO, will assist the DAS/SPR in preparing Headquarters documents and establishing key milestones and overall schedules. Operating within the parameters provided by the DAS/SPR, the Manager, OROO has the primary responsibility for developing and maintaining Project Management Plans, managing project resources, establishing and implementing management systems including performance measurement systems, approving and implementing changes to project baselines consistent with key milestones, regularly reporting to Headquarters on status, progress and problems, providing public and private sector technical liaison, retaining overall accountability for project success. The Manager, OROO, is responsible for the selection of contractors and for negotiation, execution, administration, and completion of contracts and other

procurement actions to accomplish program objectives. These responsibilities include serving as contracting officer for the management of engineering, construction, operations and maintenance, support services and other contracts as necessary to design, construct, test, and operate the Strategic Petroleum Reserve.

Within the management guidelines outlined above, it is essential that the program and project management activities be performed in the spirit of team work and close coordination to assure successful attainment of program goals and objectives.

III. Distribution of Responsibilities

A. Establishment of Goals and Objectives

1. The DAS/SPR shall have the following responsibilities:

   a. Establishes program objectives, and overall program policy regarding total storage capacity, types and quantities of crude oil to be purchased and maintained in the SPR, the system life and reliability requirements for the petroleum storage system, fill rates, draw down rates, and draw down response times, and approves modifications thereto.

b. Interprets legislation and congressional and OMB guidance and provides clarifications as required for achieving SPR goals and objectives consistent therewith.

c. Prepares Program/Project Plans in coordination with the Manager, ORO0, and obtains necessary Headquarters approvals.

d. Performs detailed studies and analyses as required in the development of program policies and plans including mission and comparative cost and schedule considerations and trade-offs.

e. Provides general program oversight and monitors the attainment of key program goals and objectives to assure consistency with the Program, Department, and Congressional requirements.

2. The Manager, Oak Ridge Operations, shall have the following responsibilities:

a. Provides input to the establishment of program objectives, policies, and Program/Project Plans.

b. Conducts conceptual studies, evaluations of alternatives, systems integration studies, cost trade-off studies, and selects supporting facilities and equipment that meet the technical performance, cost and schedule requirements of the approved Program/ Project Plan.

c. Develops detailed plans with intermediate milestones for capacity development, crude oil delivery and logistics capability, consistent with the Program/ Project Plans.

d. Develops and maintains Project Management Plans which establishes technical, schedule, and cost goals at the sub-levels, which are consistent with the Program/Project Plans.

e. Modifies Project Management Plans, goals, budgets, and schedules as required to reflect changes in the program guidance, and provide assessments of the impact of such changes as well as redirections to the project participants.

B. Budgeting, Planning, and Finance

1. The DAS/SPR shall have the following responsibilities:

a. Analyzes and approves project budget submissions and secures sufficient funding to assure successful accomplishment of program objectives.

b. Prepares budget documentation required by DOE-Headquarters, OMB, and the Congress, including any appropriate revisions to Congressional data budget sheets; also prepares documentation relative to alternative funding requirements.

c. Prepares testimony and appears before Congressional Committees and defends the funding requirements, program plans and program policies.

d. Develops and approves assumptions and funding guidelines, program alternatives, and budget formulation information requirements, in coordination with ORDO, for use in preparing annual budgets and long-range plans.

e. Performs studies and analyses and provides overall guidance and coordination to ORDO on planning, budgeting, and financial matters.

f. Analyzes ORDO budget submission and determines financial requirements. Prepares budget submission, justification, and special analyses required for Headquarters' approval of the Strategic Petroleum Reserve Program budget.

29-227 O—84——4

g. Approves funding priorities and adjustments to budget levels and secures necessary approvals, as required, at DOE-Headquarters, OMB and the Congress.

h. Provides, in consultation with ORDO, response to Congressional and DOE Controller questions.

2. The Manager, ORDO, shall have the following responsibilities:

a. Recommends objectives, goals, and assumptions for use in preparing annual budgets and long-range plans, and provides analyses, justifications, and other data required to support funding requirements.

b. Coordinates planning, budgeting and financial activities between ORDO and its contractors and with the DAS/SPR.

c. Performs planning studies, budget issue analyses, cost analyses, and other detailed analyses, and directs and coordinates contractor analyses; prepares budget submissions, justification, long-range construction and operating costs estimates, and financial reports.

d. Analyzes program requirements and priorities and implements changes in funding within budget line items or

within Congressional authorized levels; coordinates all such reprogramming with the DAS/SPR.

e. Reviews, assesses, modifies, and consolidates contractor budget submissions. Prepares and issues Financial Plans, within the limits established by the Headquarters Approved Funding Plan.

f. Provides responses to budget questions requiring input from OROO or its contractors.

g. Reports significant program issues, budget implications, and cost trends through (1) special studies and issue analyses, (2) a system of financial and budget reporting, and (3) verbal and written communication.

h. Examines long-range operating strategies, assesses risk of various strategies and recommends changes to the Program/Project Plan or other program guidance.

C. Schedule

1. The DAS/SPR shall have the following responsibilities:

a. Establishes key project milestones, in coordination with OROO, in the Program/Project Plan consistent with program objectives and congressionally mandated schedules.

b. Approves all changes to key project milestones and schedules, as reflected in the Program/Project Plan.

c. Establishes total quantity and associated schedules for crude oil storage capacity and crude oil purchases by crude type, site, and fiscal year, in coordination with the Manager, ORDO.

2. The Manager, ORDO, shall have the following responsibilities:

a. Consistent with the Program/Project Plan, establishes detailed project implementation plans and schedules related to procurement, management systems, engineering and construction, and operations and maintenance, including the project work breakdown schedule, master schedules, and site specific schedules for storage capacities, procurement, construction, operations and maintenance.

D. Implementation

1. The DAS/SPR shall have the following responsibilities:

a. Develops and maintains overall program objectives, policies, and budget strategies, including Program/Project Plans, and approves changes thereto.

b. Conducts Congressional liaison and provides interpretation of legislative guidance.

c. Develops legislative proposals as necessary to achieve program objectives.

d. Develops overall sales and draw down policies and plans, and coordinates with other government agencies and DOE-Headquarters offices to assure consistency with U. S. Government domestic and foreign policies.

e. Develops oil acquisition strategy and overall transportation guidance to assure compliance with the Cargo Preference Act and DOE policy, and ensures implementation thru DFSC, MSC, Headquarters organizations and ORO0.

f. Provides overall program oversight, and maintains cognizance of program activities to assure program goals and objectives are achieved, and evaluates performance against key milestones.

g. Coordinates policies and program activities with other Headquarters organizations and other government agencies to assure consistency with DOE policy, as well as U. S. Government domestic and foreign policy.

2. The Manager, OROO, shall have the following responsibilities:

   a. Provides input to the general program policies including the development and recommendation of long-range operating plans, long-term storage and draw down reliability requirements, risk assessments of various strategies, and recommendations for additions or modifications to program objectives, policy guidelines, and Program/Project Plans.

   b. Provides overall planning, direction and management of all phases of the project implementation.

   c. Establishes overall project implementation strategy including the selection of intermediate technical objectives, project schedule milestones, and the most appropriate implementation methods and procedures required to achieve the broad program goals and objectives.

   d. Provides overall direction and management of all project engineering and construction activities, including the development of appropriate Project Management Plans, design criteria, guidelines, and schedules as required to achieve the program objectives, and provides technical administration, management, and direction to all contractors performing engineering and construction work.

e. Develops and establishes appropriate reliability and quality assurance programs and ensures their implementation throughout the project by all participants.

f. Develops and establishes appropriate programs for health protection, safety, fire protection, and environmental protection, and ensures their implementation by all project participants.

g. Develops comprehensive plans for the operations, logistics, and maintenance of the Strategic Petroleum Reserve sites, and provides overall direction and management of these activities, including assessments of the storage facilities and equipment and the development and implementation of plans for improvements that are required to achieve program objectives and goals.

h. Performs overall Project planning and analysis to assure the attainment of program goals and objectives.

i. Develops, implements, and directs project management systems as required by DOE Orders for major system acquisitions including the expedited implementation of an effective Cost and Schedule Control System Criteria (CSCSC) Program.

j. Develops and provides overall direction and management of Implementation Plans for the Strategic Petroleum Reserve sales, draw down, and distribution, that are consistent with the program plans, policies and general guidance.

k. Enters into interagency agreements or other contractual arrangements as required to implement the project goals, objectives, and schedule.

l. Develops and implements comprehensive oil accountability plans, systems, and procedures and provides periodic reports to the DAS/SPR regarding the status of systems and inventories. ORDO will ensure that the Daily Fill System, Strategic Petroleum Reserve Inventory System, and Transportation Scheduling System are operated, and that data is updated as transactions occur.

m. Prepares documentation and presents testimony in response to congressional questions regarding the implementation of the Strategic Petroleum Reserve Project activities.

E. Administration

1. The DAS/SPR shall have the following responsibilities:

a. Provides all administrative services for SPR personnel located in Washington, D. C. and reporting to the DAS/SPR.

2. The Manager, ORO0, shall have the following responsibilities:

a. Conducts the Federal Personnel Program under ORO0's appointing authority and in accordance with OPM, DOE, and ORO0 policies and procedures.

b. Conducts the EEO Program under ORO0's multi-year affirmative action plan and in accordance with EEOC, OPM, DOE, and ORO0 policies and procedures.

c. Budgets for staff necessary to carry out SPR activities assigned to ORO0 and administers staffing allocations within ORO0's approved staffing ceilings.

d. Develops organization change proposals to reflect the assignment of SPR functions within ORO0 and obtains necessary approvals from the Assistant Secretary, Management and Administration. Such changes will be coordinated with DAS/SPR.

e. Conducts management evaluations and performance appraisals to determine that systems, procedures, and practices are

in compliance with requirements and are effective, efficient and economical. Establishes an appropriate MBO program for the SPR project implementation activities.

f. Maintains liaison with GAO, DCAA, and the IG or other external audit or investigative agencies; arranges for audits of SPR contractors; prepares and submits directly to GAO, DCAA, and the IG all responses to audit and investigation findings on SPR activities assigned to OROO, and incorporates audit findings in DARTS. In all instances where both program and project implementation matters are addressed, the responses will be jointly prepared by the DAS/SPR and the Manager, OROO.

g. Administers a personnel and physical security program necessary to assure the protection of SPR facilities and equipment against theft, and to reduce the threat of sabotage.

h. Accepts, maintains, secures, and accounts for Government property in accordance with Federal and DOE procedures and guidelines.

i. Administers a contractor industrial relations program including negotiations of advance cost understandings on allowable personnel costs, reviews and/or approves

individual salary actions and other changes to contractors compensation programs, and monitors contractor compliance with applicable labor laws.

j. Administers the personnel travel budget and all project transportation services.

k. Provides legal services for all SPR activities managed by ORO0.

l. Administers project ADP and telecommunication programs through review and/or approval of ADP and telecommunication acquisitions and development and utilization of project management information systems.

m. Provides accounting and fiscal services to manage and account for all funds assigned to ORO0 in accordance with DOE policies and procedures including approval of contractor accounting systems, administration of LOC's, payment of vouchers and invoices, and payrolling of Federal employees, etc.

n. Exercises Head of Procurement Authority responsibilities for SPR activities assigned to ORO0.

o. Serves as contracting officer within delegated authority for entering into, extending, modifying, administering, or terminating contracts necessary to design, construct, equip, test, operate, maintain and provide electrical power for the SPR facilities.

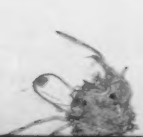
p. Serves as contracting officer within delegated authority for entering into, extending, modifying, administering, or terminating contracts and interagency agreements necessary to purchase or sell the SPR crude oil, and to provide the necessary transportation to the receiving terminals and from the storage facilities as required to meet the fill and draw down guidelines.

q. Selects contractors and awards contracts to perform real property acquisition, including easements and rights-of-way and permit acquisition.

r. Administers a public information program, including administration of the Freedom of Information and Privacy Acts.

F. Reports/Briefings

1. The DAS/SPR shall have the following responsibilities:



a. Prepares and submits to Congress all reports required by legislation including the Annual Report and the Quarterly Report to Congress.

b. Establishes program reporting requirements in coordination with the Manager, ORDO.

2. The Manager, ORDO, shall have the following responsibilities:

a. Provides supporting documentation and data as required for incorporation into reports submitted to Congress.

b. Reviews all aspects of the project implementation and establishes requirements for all other reports and the corresponding preparation responsibility, appropriate classification, and distribution.

c. Consolidates routine and periodic SPR reports into overall ORDO reports.

d. Keeps the Secretary and DAS/SPR informed on significant progress, problems, and the status of the project implementation through periodic reports, briefings, or other means of communications as required.

IV. Program Execution

The responsibilities outlined above will be carried out in accordance with:

A. The approved mission and function statements of the Assistant Secretary, EPSEP, Oak Ridge Operations Office, and their subordinate organizations.

B. Delegation of authority to the Assistant Secretary, EPSEP, the Manager, ORDO, and redelegations to their subordinate staff.

C. Pertinent management directives.

Senator WARNER. I am advised by my chief counsel that it is the judgment by others that we will not require an executive session, so this will be an open session.

In the past, allegations have been raised through the SPR, that though the SPR has significant amounts of petroleum in storage facilities, the equipment that the SPR has to pump the oil out is grossly inadequate. Can you comment on that?

Mr. LA GRONE. If I understand the question, it is that there have been allegations about the ability to remove the oil from the caverns where it has been stored. Is that the sense of the question? We have conducted two recent exercises, one in July at Bayou Choctaw in which about 260,000 barrels of oil were withdrawn in the period of about 24 hours. That exercise was done by the Inspector General of the Department, along with representation from our task force. We considered it to be a very successful exercise.

Just last week we conducted a similar exercise at Bryan Mound and in roughly a 24-hour period, over a million barrels of oil were pumped out. So the equipment worked. We did learn some things, but basically demonstrated that in fact the oil in the ground at those sites can be withdrawn right now.

We are going through site by site, and West Hackberry, I believe, is the next site we have scheduled to do similar exercises to learn what we can to make sure the equipment works, whether the automatic controls, and the instrumentations perform as they should.

There are, as you will note in the report, some varying degrees of confidence in the various sites as to the ability to sustain a drawdown for the longer term and that is based upon our observations and findings about the maintenance program, the maintenance of the equipment and the condition of it.

Our concern is focused more out into the future years, 5, 10, 15 years, if we need the SPR; will it be maintained? If it is kept in the

condition it is in today, our judgment is its ability will be impaired severely unless some of the practices now in effect around fire protection, safety and maintenance are improved.

Senator WARNER. What would you identify as the most urgent problem facing the SPR?

Mr. LA GRONE. I would put them in four categories. First of all, the maintenance program, and Mr. Milloway can speak to it in more detail. Second, the matter of security is certainly an important consideration. The business management systems is certainly an important item, how the project is actually managed and executed; and, fourth, taking advantage of lessons learned and applying that to the Big Hill site.

John, do you have some others?

Mr. MILLOWAY. Fire protection.

Mr. LA GRONE. Fire protection and safety, obviously is one of the big tickets as well, sir.

Senator WARNER. What are you doing to correct the problems?

Mr. LA GRONE. We will start with fire protection and safety. One of the initial things we did was to employ an organization called Industrial Risk Insurers to come in and take a look on a site-by-site basis at the existing fire protection systems and the equipment that are in place, and then test those systems to determine if they will in fact work and respond.

I would like to ask Mr. Milloway to comment on the two exercises that have been conducted to date.

Mr. MILLOWAY. An exercise was conducted at the Bayou Choctaw site. It has been completed. There were problems which confirmed our feelings that improvements were needed and a report has been received from IRI. It is under active consideration at this time. It addressed deficiencies that should be considered by the department.

A similar exercise has been conducted at West Hackberry. It also identified deficiencies. We have not seen the report yet, but we will move out aggressively on those reports and I will proceed with two more sites during this month and hope to finish them up.

To give you some example of the problems, for example, at Bayou Choctaw, a drive motor on the pump failed during the test. This would have been extremely serious had there been a fire. A motor controller also failed when the backup pump was called upon by virtue of the failure of the main pump. The diesel generator backup was set in an idle position, so it did not produce water as required.

So these are typical of the deficiencies that we are addressing in a very active way at this time.

Senator WARNER. What steps are you taking to assure the quality of the oil in reserve?

Mr. LA GRONE. The quality of the oil in reserve. One of the items that we first got into was an oil accountability exercise. There had been issued a request for proposals to determine the quantity of oil in storage and some seven or eight proposals were submitted. In our view, in looking at the proposals, they would not have provided meaningful data in terms of oil accountability.

All of the proposers could assure only within a plus or minus 10 percent of how much oil was in each cavern. We felt that was not

sufficient. That particular procurement was canceled in consultation with the Inspector General, the program office here in Washington. We reissued a procurement to obtain an audit, if you will, of the the paper systems. All the big eight audit firms, eight or nine, have bid on that, to look at the step-by-step procedure from the standpoint of the paper trail.

That job can be done.

As to verifying what oil is in the caverns, sonar works very well on empty caverns in terms of dimensions. Our experience has been it does not work in oil. We presently have two organizations conducting essentially a worldwide search for technology to determine ways and means of measuring the amount of oil that is in a given cavern.

It is our judgment that the oil put into the caverns was put in using normally accepted industrial practices such as metering operations and so forth.

Senator WARNER. What about the quality of the oil?

Mr. MILLOWAY. If I might, Joe.

Mr. LA GRONE. Please.

Mr. MILLOWAY. With regard to the quality of oil, sir, that deals with one of the many allegations which we are addressing and I might say that we held discussions with the DOE Inspector General's Office at the outset of our activities and his instructions to us were that the subject of waste oil and quality of oil had been addressed and he felt completely satisfied on this issue.

But more broadly in terms of an ongoing system, there is a very elaborate and disciplined system in place for checking the quality of the oil by an independent group or groups who are not Department of Energy employees. The DCAS, Defense Contract Administration Services, provides this independent assessment on every shipment that comes in. Some shipments of foreign origin are treated similarly by employees of the Defense Fuel Supply Center. So that system is in place. We overviewed it and it appears to be effective for an ongoing system.

Senator WARNER. Would you explain in greater detail the management relationship between the New Orleans and the Oak Ridge offices.

Mr. LA GRONE. The project office in New Orleans follows the classical organization table for a large project. The project manager there reports to Mr. Milloway who is serving as acting assistant manager for the SPR operations.

In that respect, he performs oversight responsibilities. Whatever items that cannot be approved in New Orleans are approved at his level. Part of his job is to assure there is support provided to the project office from what we call the matrix organization, such as procurement, legal, budget, finance, property, telecommunications to work the issues and problems that arise.

We have defined now the working relationships and the interface between the matrix organizations at Oak Ridge and the project office to establish communication channels and to make sure there is a smooth flow of the work.

Ours basically is an oversight function and a review function. Budgetary items that eventually will require approval here in Washington are discussed in the Oak Ridge office. We dialog those

and we go forward with a consolidated position between the project office in Oak Ridge as we come up to Washington.

Periodic reviews are held on projects, status reviews and so forth. This is pretty much the normal relationship, sir, we maintain on other work the Department does. The Department executes 99.9 percent of its work through field offices such as Oak Ridge.

Senator WARNER. I understand that in briefing the committee staff you said it is your opinion that problems existed in the funding.

Mr. LA GRONE. I do not recall any such statement, sir. I may have made a comment that we did see areas——

Senator WARNER. This gives you an opportunity to correct it then.

Mr. LA GRONE. We did not see areas where the SPR project has been constrained severely by resources. In our judgment, there have been adequate resources to do the work that is necessary. We have not priced out all of the options. Many of these 170 recommendations involve changes in methods of doing work, methods of approval, and do not entail dollars. However, there are some areas that will entail the need for some dollars.

Senator WARNER. Excuse me, I am going to recess for 3 or 4 minutes.

[Whereupon, there was a recess.]

Senator WARNER. Senator Hecht, do you have any questions?

Senator HECHT. Thank you, Mr. Chairman. I just came to familiarize myself. Thank you.

Senator WARNER. Would you provide the committee as soon as possible a timetable for curing the major and serious problems you found, including the estimate of the costs involved.

Mr. LA GRONE. Yes, sir, Mr. Chairman. One of the things we are doing now is prioritizing between the Oak Ridge people and the project office people the 170 recommendations in terms of what needs to be done, by what time, and what estimated costs may be incurred with that. We will submit that to the committee as soon as possible.

On the point about resources, I did make a statement, I believe, yesterday. I have been briefing some members of the staff that we have not seen that the project was resource constrained and therefore some things should have been done. In terms of some of the recommendations that are here, to respond to the question about needs for dollars, we may come back and say, yes, in order to bring the fire protection up to the level it should be, there may be a need for some additional dollars. Security is another area.

Maintenance, increased maintenance we believe probably will warrant some more dollars. The oil accountability study I mentioned will cost a few dollars. Another item that is not in this study is a big ticket item and that is the Bryan Mound site and the pipeline that goes north from Bryan Mound up to Cushing, Okla. It is our understanding that oil has not moved through that line in about a year because the refineries have been closed. It presently is filled with oil that is privately owned. If we had to get to a drawdown mode, we could have some problems because the Seaway Terminal has been placed up for sale within the last week. Bids are being asked.

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We are looking at, with the program office in Washington, a number of options in terms of the best way to get the oil moved out of Bryan Mound. One of those options could be a pipeline to Houston and that could cost a sizable amount of money.

We would intend to negotiate with the new owners of the Seaway docks and the pipeline for the right to use those facilities for Government purposes.

Senator WARNER. Is there anything in your report that would suggest that the oil in the SPR cannot be drawn down now at rates DOE claims?

Mr. LA GRONE. No, sir. There is nothing in the report that indicates it cannot be withdrawn at the rate DOE has postulated. However, as the report, particularly the executive summary, notes we do have varying levels of confidence and that goes principally to two areas.

Senator WARNER. Could you speak up a little bit?

Mr. LA GRONE. Yes, sir. We believe the oil in the ground can be withdrawn now as the report notes, and as my statement notes. But we do have varying levels of confidence and that is based principally upon the condition of maintenance of the equipment, and, second, the fire protection system.

Senator WARNER. An example, of course, is an article that appeared in the Washington Post, November 2, 1983. It began "The strategic petroleum reserve, the Nation's emergency oil supply stored in salt mines in Texas and Louisiana, suffers from security, maintenance, safety and management problems that jeopardize its usefulness in the event of a world oil crisis, according to government investigators." The question is: Would the SPR be useful if a disruption occurred tomorrow?

Have you had an adequate opportunity this morning to reply to the allegations raised in that article in the Washington Post, November 2, 1983?

Mr. LA GRONE. That particular article, I believe we touched on it in our testimony yesterday, as we did here today, in terms of our statement and as reflected here in the report we believe the oil in the ground now can be withdrawn, but we believe there are some problems, potential problems there in the area of maintenance, and fire protection.

We particularly are concerned about the long-term and about practices that are underway now which must be altered if the SPR is to be maintained as a viable resource. We believe our position in the report and in our statement adequately speaks to those points.

Senator WARNER. What would you say to those who make allegations, who use this report to support their argument that the SPR fill rate should be reduced or that Big Hill should be delayed?

Mr. LA GRONE. This report is not intended to buffer the argument for or against the fill rate nor the construction at Big Hill. This report is aimed at improving the management systems now in place at existing sites. It is also aimed at taking advantage of the targets of opportunity on the assumption that funding will come for the Big Hill site in that we put in place management systems to assure that we have taken advantage of lessons learned. So it is not built to support or buffer those kinds of arguments.

Senator WARNER. What is your view of the ability to achieve a fill rate of 186,000 barrels per day in fiscal year 1984?

Mr. LA GRONE. That is an area I do not really have any expertise in, Mr. Chairman. I only would point to the fact that in the prior year we did exceed the 220,000 barrels, so certainly I would think that is feasible, if we look at just past experience.

Senator WARNER. Any further questions? This concludes the hearing. Thank you very much.

Mr. LA GRONE. Thank you.

[Whereupon, at 9:45 a.m., the hearing was adjourned.]

APPENDIXES

APPENDIX I

Responses From Mr. La Grone to Additional Questions

Department of Energy
Washington, D.C. 20585

December 13, 1983

Mr. Michael Harvey
Chief Counsel for Minority
Committee on Energy and
Natural Resources
United States Senate
Washington, D.C. 20510

Dear Mr. Harvey:

On November 10, 1983, Manager of the Oak Ridge Operations Office, Joe La Grone, appeared before the Energy and Natural Resources Subcommittee on Energy and Mineral Resources to discuss the Strategic Petroleum Reserve and the Department's baseline assessment.

Following that hearing, you submitted written questions for responses to supplement the record. Enclosed are the answers to those questions.

If you have any questions, please call Diana Diamond or Tom Pretorius of my staff on 252-4277. They will be happy to assist you.

Sincerely,

Thomas H. Pretorius

for Robert G. Rabben
Assistant General Counsel
for Legislation

Enclosure

cc: Mr. Al Astrin
Committee Staff

Question 1. On June 15, 1983, Secretary Hodel announced in a joint press conference with Rep. Mike Synar that he was "reassigning the management" of the SPR Project Office in New Orleans to the Oak Ridge Operations Office effective immediately. This reassignment appeared to be an abrupt decision. Those who briefed our Committee Staff were unable to say what specific problems Secretary Hodel hoped to solve with the reorganization. Do you know on what basis this reorganization was made? Can you provide a copy of any analysis that was done on why the reorganization was necessary?

Answer 1. I am not aware of all the background and the factors leading to the decision by the Secretary to reassign the management of the SPR Project Office to the Oak Ridge Operations Office. As the Secretary explained, however, on June 15, 1983, when the decision was announced, he had reached the conclusion over a period of time that he should bring the reporting relationship of this project into line with the accepted management procedures throughout the rest of the Department. In addition, the Secretary stated that he believed the change was appropriate at that time to permit a fresh management approach and attention to the particular project management requirements as determined through a full scale review of the project.

This action is consistent with the basic structure and roles of Departmental components established soon after formation of the Department in October 1977.

Specifically, it had been decided at an early stage that the DOE Headquarters organizations should concentrate on providing management direction and broad policy overview; planning, budgeting, and allocating resources; and maintaining programmatic relations with the Congress and other Executive agencies. Operations Offices were to be responsible for program implementation including project and business management and all related contract administration activities.

Since establishment of the Department in 1977, the Secretaries of Energy have acted incrementally to consolidate field functions and streamline the field management structure. It has been necessary to accomplish the organizational consolidation actions over a period of years to assure that there was not a loss of management effectiveness and that there was full integration of staff resources and management responsibilities. Prior to the SPR Project Office reassignment, the Clinch River Breeder Reactor Project

Office and certain functions previously performed in regional offices had been reassigned in April 1981 to the Oak Ridge Operations Office. Other project offices and regional functions were also reassigned to other Operations Offices at that time.

A specific analysis of the reassignment action on this project office was not considered necessary since the action was consistent with DOE management practices for other major projects.

Question 2. Wouldn't it have made more sense for your task force to do this report and then decide if such a major reorganization was needed?

Answer 2. No. As stated above, the action taken by the Secretary was a reassignment of management responsibility consistent with the overall Departmental structure and field management practices. We believe the results of the Task Force efforts will further enhance the management structure and oversight of this important program.

Question 3. As you know the SPR program has been controversial recently, particularly as to its effect on the budget. Is there anything in your report that would lead one to conclude that the SPR fill rate should be reduced or that Big Hill should be delayed?

Answer 3. The "Baseline Assessment of the Strategic Petroleum Reserve Project Management Office" Report, was a limited review of project management activities in New Orleans. The decision to proceed with the Big Hill Site and the establishment of a fill rate for the SPR is primarily a programmatic function of the Deputy Assistant Secretary, Strategic Petroleum Reserve. Accordingly, there is nothing in the Baseline Report to indicate that the fill rate should be altered or that the construction of the Big Hill Site should be postponed.

Question 4. On page 264 of the report you draw attention to the morale problem in the project office because of the barrage of groups coming in to investigate the program and particularly because of the recent Office of Personnel Management review that will probably result in many downgradings. Your report and the reorganization may have exacerbated the morale problem. Your report states, "The sum of comments made to members of the Task Force appears to substantiate the PMO management feeling that there is a potential for the loss of valuable PMO personnel in the near future." Do you expect to lose the top management in the Project Management Office for the SPR? Where will you get the people with the highly specialized knowledge necessary to run this program? Can you do it alone from Oak Ridge? Wouldn't it be a disaster if the aftermath of this report is that you lose the people who can "get the oil in the ground." What indications do you have at this point that key personnel may leave the New Orleans office? What steps are you taking to prevent this loss of "valuable PMO personnel?"

Answer 4. It is true that a morale problem exists in the Project Office. This situation arose for a variety of reasons. It is possible that the assignment of project management responsibility to the Oak Ridge Operations Office and the ensuing Baseline Report might have added to the problem. However, we are hopeful that our collective efforts to improve the management systems at the PMO will be viewed in a broader sense by the PMO employees, and that they will appreciate the ensuing benefits as being applicable to their long-range welfare as well as to direct project implementation.

During the many discussions between the Task Force and PMO personnel, a few people indicated that they were considering other employment for a variety of reasons. This was particularly true of those personnel who had been affected by the OPM downgrade action. It is extremely difficult, however, to predict just what the impact of this situation might be in terms of actual personnel losses. Two of the Assistant Project Managers (Operations and Management and Administration) have chosen to leave the project. The APM for Operations advised that his motives were purely personal (his wife has resided in Houston during his employment in New Orleans). The APM for M&A apparently saw greater career opportunities elsewhere and has chosen to return to DOE Headquarters. We are moving promptly to fill these two positions and we are optimistic that qualified personnel can be found to meet these needs.

While it is true that many of the key management personnel have specialized knowledge related to this program, many of the management positions do not require unique technical knowledge. We anticipate that

there will be a very minimum of loss in those unique positions calling for technical expertise related to oil storage and are confident that there will be no compromise in our ability to meet oil storage goals. We feel that the people who are selected to fill any vacancies that occur should continue to be located in New Orleans. Oak Ridge has no plans to build a large staff located in Oak Ridge to offset the losses that might occur in New Orleans. We have no indications that other key management personnel, at least at the Assistant Project Manager level and above, are about to leave the project. However, as you might expect, it is not always possible to precisely know people's plans in this kind of situation.

We are making every effort to offset the impact of the OPM downgrade action by working with the personnel in New Orleans to assess the OPM actions in every case. In those cases that are found to be worthy of appeal to the OPM, we are moving promptly to develop the documentation for appeal. We are pleased to report

that the first two cases we chose to appeal to OPM have been upheld and the individuals involved will be permitted to keep their original grades. This effort will continue until all affected positions have been carefully analyzed and acted upon as appropriate.

We are extremely sensitive to the employee morale issue and would like to assure you that we are making every effort to improve the situation in the New Orleans office. We feel that our assurance to the personnel in that office that we have no plans to transfer positions or people to Oak Ridge will have a salutary effect. We pledge to continue the strongest kind of effort in this area and look forward to an improved morale situation in the near future.

Question 5. You are no doubt aware of the fluctuating policy signals on the SPR that emanate from Washington as Congress and the Executive branch debate the fill rate, the appropriate drawdown plan, and whether or when Big Hill will be built. Under the reorganization the program operations people no longer work for the policy people. Instead, they work for you. How are you going to follow the policy changes swiftly enough to keep the program on track? Isn't this a different situation from the other projects you manage which have relatively constant policy direction. Will you have policy specialists in your office?

Answer 5. We are aware of many of the policy changes that have taken place on the SPR. However, we would point out that this situation is no different from any other program that the Oak Ridge Operations has been involved in, and we feel that we can very adequately respond to this kind of situation. As you may be aware, one of our initial actions was to enter into a Management Agreement with the Assistant Secretary for Environmental Protection, Safety and Emergency Preparedness, and that Management Agreement delineates our individual and mutual responsibilities with respect to policy formulation, policy and program guidance, budget formulation, and project execution. A common thread throughout the framework of this agreement is a requirement for good, two-way communications; thus, this agreement, coupled with the establishment of an Assistant Manager for Strategic Petroleum Reserve at

Oak Ridge, we believe, places us in a position to not only respond to policy and program guidance in a timely manner, but to also assure appropriate implementation and execution of our project responsibilities. Additionally, the dedicated Oak Ridge SPR staff and the assistance provided by a large matrix organization will contribute substantially to the success of the program. We do not envision having policy specialists at the Oak Ridge Operations Office.

Question 6. Your report does not appear to mention the serious impending problem of the Seaway pipeline, which serves Bryan Mound, being offered for sale. What are you going to do about that? Who within DOE has responsibility for addressing this problem?

Answer 6. As indicated in the response to question number 3, the management assessment documented in the Report was primarily of Project Management Office functions. It does not specifically address program issues. The proposed sale of the Seaway Terminal and pipeline is one of many important program problems facing the Deputy Assistant Secretary, Strategic Petroleum Reserve. In this regard, the Deputy Assistant Secretary has formed a Task Force consisting of Headquarters program, Oak Ridge project and New Orleans personnel to review the problem associated with the Seaway Terminal. All options and proposed courses of action will be explored.

Question 7. On page 209 of the report you praise the Office of General Counsel in New Orleans, but then in recommendation 3.(d) you make a rather damning recommendation: "...The Oak Ridge Office of Chief Counsel can provide oversight of the PMO attorneys in this regard. Being removed from the PMO, the ORO Chief Counsel can provide objective legal advice, and is not likely to be coaxed or coerced into pursuing activities which are difficult to defend." Are you alleging that there has been coaxing or coercion to which the SPR attorneys in New Orleans were susceptible? Please be specific. If such pressures do exist, are you alleging that the Oak Ridge General Counsel can better insulate the attorneys in New Orleans than can the General Counsel in DOE Headquarters?

Answer 7. No such inference should be drawn. The DOE General Counsel always have insisted that DOE attorneys provide strictly candid legal advice regardless of client pressures or potential controversies, and the ORO Chief Counsel will expect the same of the New Orleans attorneys.

The Task Force did conclude that the PMO pursued unwise courses of action in certain contracting actions, and questioned counsel's role in them (see, e.g., pp. 206-7). However, the ORO Chief Counsel has informed me, after a review of counsel's role in these matters, that in his opinion and that of the DOE Acting General Counsel, the legal advice rendered by the New Orleans attorneys in fact was based on a candid appraisal of the issues, and that their advice reflected a legally defensible view of the law. In fact, a careful reading of the baseline assessment report shows that the Task Force did not conclude otherwise.

Question 8. Have there been downgradings in GS ratings at Oak Ridge recently? In what areas? As Oak Ridge will be managing the New Orleans project office will that mean that any personnel in New Orleans may be downgraded as a result?

Answer 8. Upon creation of the Department of Energy in 1977 the agency made initial application of OPM classification standards. This application of the standards by DOE at all field offices resulted in some positions being identified for downgrading. This occurred in 1979. Subsequently, OPM performed a Personnel Management Evaluation of Oak Ridge. As a result of this review some additional positions were identified for downgrading. During April 1983, the Office of Personnel Management (OPM) conducted a similar formal Personnel Management Evaluation (PME) of the Strategic Petroleum Reserve Project Management Office (SPRPMO). As part of that PME, OPM audited 29 positions, tentatively concluded that 22 were misclassified, and identified 42 additional positions for subsequent review. In its August 19, 1983, report of these findings, OPM initially requested that the review of all 64 positions be completed within 60 work days. However, based on the magnitude of this effort, we proposed and OPM accepted a five-stage plan which will

complete this classification review by August 31, 1984. Four cases were immediately closed with this proposal: three by the abolishment of vacant positions which are no longer needed and the fourth by reclassification into a new occupational code with no change in grade.

Since September 1983, a personnel specialist in the Oak Ridge Office has assisted the SPRPMO full-time in executing this classification review plan and in completing its transition into the Oak Ridge Operations (ORO) personnel management system. The first stage of the review involved six positions: in two cases, we rebutted OPM's tentative downgrade decisions and OPM accepted our analysis; in three other cases, we accepted OPM's tentative decisions and downgraded the positions on November 13, 1983, as required by regulation; in the sixth case, we determined that the position should remain classified at its current grade but OPM requested that we reconsider our findings before reaching a final conclusion. Our report on the second stage is due to OPM on December 31, 1983.

however, we have submitted two interim reports upholding the classification of five positions in order to recruit for several vacancies potentially affected by the PME. Such recruitment-based accelerations are provided for in the classification review plan.

The three cases discussed above are the only downgradings within ORO (which now includes the site offices of the SPR where these actions occurred) which took place during the current calendar year. The classification review mandated by OPM may result in additional downgrading during 1984. To the extent that reorganizations are required to implement the recommendations in our Baseline Assessment of the SPRPMO, some encumbered positions may be abolished and others may be modified to the extent that their grades will change. However, ORO's assumption of responsibility for the SPRPMO will not in-and-of-itself result in any downgradings, and we will make every effort to minimize the effects of job abolishments and modifications on employees.

Question 9. Are any additional personnel needed to accomplish the changes you recommend in your report?

Answer 9. The Baseline Report addresses several areas where additional staff may be required and several areas where additional emphasis on functional areas may require either additional staff or changes to the current skills mix at PMO. However, such changes will not occur until a manpower utilization review has been conducted by Oak Ridge. Specifically, the following recommendations have been identified by the Task Force as having possible impact on staffing levels:

(a) A DOE management organization for the Big Hill construction program should be established which should include provisions for a full-time DOE site presence with appropriate contract authority. (p. 93)

(b) Staffing assignments should be reviewed for the purpose of providing some contract administration support in the field for the major construction activities. (p. 193)

(PMO has initiated actions, within current staffing limitations, to implement the above recommendations. Currently, two engineers have been hired and a third is in the selection process. In addition, positions for a contract administrator and clerical support are being requested and the recruitment and selection process should be completed in the near future.)

(c) A power contract administrator (PCA) should be hired subject to overall staffing limitations. (p. 194)

(d) Establish a staff assistant position under the APM-M&A to carry out the combined functions of audit coverage, assessing the audit follow-up process, DARTS reporting, and audit liaison. The staff assigned should have necessary familiarity with auditing, accounting, and contract principles, and the time necessary to assure that proper audit follow-up actions are carried out. (p. 201)

(e) A manpower study should be undertaken to determine the legal staffing needs of the PMO, subsequent to the overall consolidation of PMO into ORO. At the present time, the attorneys at the PMO are being forced by litigation and time constraints, to prioritize work in a manner which prevents the full realization of their potential. ORO itself does not presently have the legal staff necessary to provide significant assistance to PMO to lessen the peak demands imposed by litigation and administrative actions. (p. 208)

(f) Top level management should place more emphasis on the financial aspects of the SPR, particularly in oversight and monitoring of contractor accounting systems, cost claims, cost control. etc. (p. 235)

(g) Contract pricing and other contract finance activities should be confined to trained staff totally dedicated to support the procurement mission. (p. 236)

(h) Prior to effective oversight of contractor functions in the industrial relations area, it is clear management's approach to its responsibilities must change from a predominantly post-audit perspective to a more active role in assessing the reasonableness of contractor policies and costs. In order to help accomplish this, PMO must place greater emphasis on the IR function. (p. 242)

The discrete recommendations identified above for increased personnel and or emphasis are part of an overall manpower study which will be performed by the Oak Ridge Operations Office. Staffing level changes and or changes to the skills mix at New Orleans will not be made until the manpower utilization review is complete. The review will establish an overall assessment of personnel requirements at New Orleans and the sites. It is not possible at this time to predict if it will result in a recommendation for a net increase in staffing in New Orleans. The study will be conducted within the next 12 months.

Question 10. Would you provide the Committee as soon as possible a timetable for curing the major and most serious problems you found, including an estimate of the costs involved? Could you provide the Committee a schedule for curing the remaining problems and the estimated costs?

Answer 10. We are actively working with the Project Management Office in New Orleans to develop an implementation plan for the recommendations in the Baseline Report. We expect that this plan will be available by the end of December. It will provide a schedule for the implementation of each recommendation. Our goal in setting each schedule will be to promptly implement each recommendation, recognizing at the same time that many demands are currently being made upon the PMO staff for a variety of initiatives. With regard to a cost estimate, there is a nominal cost involved in implementing the large majority of the recommendations. They basically call for changes in management procedures and systems and we would not expect to have additional cost involved. However, in some areas, such as security and fire protection, additional costs will be involved. It will not be possible to develop estimates of these costs for some time due to the lack of completed reports on security and fire protection surveys. Consequently, it will be some time before we can provide you with a credible cost estimate.

Question 11. You recommend the consolidation of selected prime contracts into a broader operations, management and maintenance contract to be run by an outside contractor. Would you explain in greater detail what you have in mind?

Answer 11. The recommendation to consolidate selected prime contracts into a broader management, operations and maintenance contract would essentially involve the following current contractor operations. The current operations contractor, POSSI , has a work statement for 31 specific tasks in its contract with the New Orleans Project Management Office (PMO). We plan to write a new work statement in broader and more general language than the current contract contains. This will permit the contractor with the revised statement of work to better manage, operate and maintain the sites. They will have better control and be in a position to provide better service to PMO by accepting more responsibility for the ongoing operations than is possible under the current contractual arrangement. Some of the current contracts which we plan to place under the new contract are listed below with a brief synoposis of their work:

(a) Thacker - Constructor for the modification and upgrades program. Some of the Thacker construction work would be assigned to the new contract primarily to be accomplished as firm fixed price subcontracts. The details on how much and the criteria for assigning this work to the new contract are still under consideration. Major construction projects and other construction projects not directly related to maintenance and operations would not be assigned to the new contract.

(b) Texas A&M University - Environmental assessments for off-shore brine disposal. This current prime contract would be assigned to the new contract for administration purposes. At the completion of the current contract, the task would be competitively awarded as a subcontract under the new contract.

(c) Spectra Research Services - Safety and risk analysis for PMO. This work will be assigned to the new contract and will probably be accomplished by means of a subcontractor.

(d) Law & Co. - Ship inspection services. This work will be assigned to the new contract and will probably be accomplished by means of a subcontractor.

(e) Mardata - Subscription to charter fixture library, ship library and tanker casualty library. This will be assigned to the new contract and will be accomplished by means of a subcontract.

We plan to continue to review other contractor functions for possible inclusion under the new contract where it is desirable to do so.

Question 12. To what extent are your recommendations simply a matter of management style? For example, we understand that some management review groups recently visited some of the same facilities that you analyzed, but they gave them a relatively clean bill of health. Is this true?

Answer 12. The recommendations contained in the Baseline Assessment do not emanate from style. Rather, they reflect judgements about the way in which a major project should be organized and executed.

Regarding recent management reviews, only a few have occurred. One was the DOE Headquarters Procurement Management Assistance Review with a Report issued in December 1982. Even though SPR was rated effective and efficient, the report noted several areas where improvement was needed. Additionally, the DOE-IG for Inspections conducted, with a Task Force member participating, two fill and drawdown exercises during July and November 1983. The inspections confirmed, as did the report of the July exercise, that the two sites could function at the expected performance levels.

It should be noted the Task Force reviewed a significant number of GAO, DCAA and DCAS reports. Many very recent, (1982-1983) expressed concern over functional areas. The group also toured all sites and spent numerous hours meeting with DOE and contractor employees. I can assure you the recommendations were well founded and written with emphasis toward the improvement of management procedures and systems to enhance the long-term viability of the project.

APPENDIX II

Excerpts From the Department of Energy's Report "Baseline Assessment of the Strategic Petroleum Reserve Project Management Office"

BASELINE ASSESSMENT

OF THE

STRATEGIC PETROLEUM RESERVE PROJECT MANAGEMENT OFFICE

October 24, 1983

Prepared By

DEPARTMENT OF ENERGY

OAK RIDGE OPERATIONS OFFICE
OAK RIDGE, TENNESSEE

TABLE OF CONTENTS

		Page
I.	Foreward	1
II.	Executive Summary	3
III.	Background Section	17
	A. Legislative History	17
	B. Program and Project Management	18
	C. Project Activities	19
	D. Strategic Petroleum Reserve Organization	20
	1. Background	20
	2. Current PMO Organization	23
	a. Assistant Project Manager - Operations	23
	b. Assistant Project Manager - Engineering and Construction	28
	c. Assistant Project Manager - Management and Administration	30
	d. Assistant Project Manager - Technical Assurance	31
	e. Project Planning and Control Staff	32
IV.	Engineering and Construction	35
	A. Overview	35
	B. Introduction to Sites	36
	C. West Hackberry	39
	1. Site Description	39
	2. Significant Accomplishments	44
	3. Modifications and Upgrades	44
	4. Current Problems	46
	a. Instrumentation and Control	46
	b. Electrical	47
	c. Mechanical	48
	d. Civil Structural	49
	D. Sulphur Mines	50
	1. Site Description	50
	2. Significant Accomplishments	50
	3. Modifications and Upgrades	54
	4. Current Problems	55

Page

E. Bayou Choctaw 55

1. Site Description 55
2. Significant Accomplishments 57
3. Modifications and Upgrades 57
4. Current Problems 61

F. Weeks Island 61

1. Site Description 61
2. Significant Accomplishments 62
3. Modifications and Upgrades 62
4. Current Problems 68

G. St. James 68

1. Site Description 68
2. Significant Accomplishments 68
3. Modifications and Upgrades 71
4. Current Problems 72

H. Bryan Mound 72

1. Site Description 72
2. Significant Accomplishments 76
3. Modifications and Upgrades 76
4. Current Problems 78

a. Instrumentation and Control 79
b. Mechanical/Civil/Electrical 80
c. Organizational 81

I. Big Hill 81

1. Site Description 81
2. Significant Accomplishments 84
3. Modifications and Upgrades 84

J. Observations and Conclusions 85

K. Recommendations 92

V. Operations 95

A. Overview 95

Page

B. Operations and Maintenance - Nonsite Specific 95

1. Maintenance 95
2. Operations 100

a. Accomplishments 100
b. Organization 100
c. Plans 100

3. Integrated Logistics System 100
4. Recommendations 104

C. Operations and Maintenance - Site Specific 104

1. St. James Terminal 104

a. Site Evolution 104
b. Current Status 105
c. Findings and Conclusions 105
d. Recommendations 106

2. Bayou Choctaw 106

a. Site Evolution 106
b. Current Status 106
c. Findings and Conclusions 107
d. Recommendations 109

3. Weeks Island 109

a. Site Evolution 109
b. Current Status 109
c. Findings and Conclusions 110
d. Recommendations 112

4. West Hackberry 113

a. Site Evolution 113
b. Current Status 113
c. Findings and Conclusions 113
d. Recommendations 117

5. Sulphur Mines 117

a. Site Evolution 117
b. Current Status 117
c. Findings and Conclusions 117
d. Recommendations 119

Page

6. Bryan Mound 119

a. Site Evolution 119
b. Current Status 119
c. Findings and Conclusions 119
d. Recommendations 125

D. Crude Oil Logistics 125

1. Organization 125
2. Execution 125
3. Issues 127
4. Assessment 127

E. Crude Oil Accountability 127

1. History and Current Mechanical System 128

a. Texoma Complex 128
b. Seaway Complex 131
c. Capline Complex 132

2. Current Procedural System 136
3. Summary of Crude Oil Quality Control Procedures 138
4. Current Inventory by Site as of August 31, 1983 141
5. The Plan for Resolution of the Oil Accountability Issues 141
6. Recommendations 142

F. Security 142

1. Security Administration 142

a. Summary 142
b. Problem 143
c. Recommendations 143

2. Security Operations Guidelines and Policies 143

a. Summary 143
b. Scope of the Assessment 144
c. Review by Topic 144

(1) Theft of Government Property 144
(2) Survey Reports 145

d. Recommendations 145

Page

3. Vulnerability Studies/Reports/Private Sector Papers . . . 145

a. Summary 145

4. Physical Protection System - See Appendix A (classified) 146

a. Summary . . . . .
b. Review by Topic . . . . .

(1) Intrusion Detection Systems . . . . .
(2) Closed Circuit Television (CCTV) . . . . .
(3) Security Operations Center . . . . .

c. Problems . . . . .
d. Unresolved Issues . . . . .
e. Recommendations . . . . .

5. Site Protection Force 146

a. Summary 146
b. Scope of Assessment 147
c. Review by Topic 147

(1) Organization/Personnel 147
(2) Clearance Procedures/Guard Retention 147
(3) Reporting Procedures 147

d. Recommendations 147

6. Oil Pipeline Security 148

a. Summary 148
b. Scope of Assessment/Review 149
c. Procedures/Practices 149
d. Recommendation 149

7. Site Security Audits - See Appendix A (classified) 150

a. Summary . . . . .
b. Scope of Assessment . . . . .
c. Review by Topic . . . . .

(1) Security Administration and Evaluation . . . . .
(2) Personnel Security . . . . .
(3) Violations of Laws, Losses, and Incidents of Security Interest . . . . .

Page

d. Physical Protection . . . . . .
e. Protective Force . . . . . .
f. Protection Lighting . . . . . .
g. Other Observations . . . . . .
h. Classified Document Control--West Hackberry . . . . .
i. Physical Protection System (PPS) . . . . . .
j. Communications--West Hackberry . . . . . .
k. Electric Power--West Hackberry . . . . . .
l. Recommendations . . . . . .

G. Telecommunications 150

1. Summary 150
2. Scope of the Assessments 150
3. Review by Topic 151

a. Organization 151
b. Personnel 151
c. Procedures/Practices 151

4. Problems 152
5. Relationships 152
6. Recommendations 152

VI. Technical Assurance 153

A. Overview and Functions 153
B. Quality Assurance 153

1. Historical Development 153
2. Current Status 153
3. Findings and Conclusions 156
4. Recommendations 157

C. Reliability 157

1. Historical Development 157
2. Current Status 159

a. Organization 159
b. Current Activity 159

3. Findings and Conclusions 160
4. Recommendations 160

Page

D. Safety 161

1. Industrial and Construction Safety 161

a. Introduction 161
b. Commentary 161

(1) Management Directives 161
(2) Policies, Standards, Permits, and Licenses . . . 162
(3) Organization and Administration 162
(4) Staffing 163
(5) Training 163
(6) Communication 164
(7) Documentation 164
(8) Incident and Accident Reporting 164
(9) Planning, Budgeting, and Spending 165
(10) Safety Appraisal Programs 165
(11) Safety Evaluation of Current and Planned Facilities and Programs 166
(12) Performance 166

c. Summary and Corclusions 168
d. Recommendations 169

2. Fire Protection 169

a. Introduction 169
b. Organization 170
c. Personnel 170
d. Training 170
e. Documentation 171
f. Commentary 171
g. Summary 174
h. Recommendations 175

3. Environmental Management 175

a. Introduction 175
b. Commentary 175
c. Summary 180
d. Recommendations 180

VII. Administration 183

A. Overview and Functions 183
B. Procurement and Contracting 183

1. Organization and Personnel Structure of Procurement and Contracting 183

Page

2. Workload and Its Management 184
3. Contracting Officer Authority 185
4. Current Status of Procurement and Contracting Function 185

a. Personnel 185
b. Subcontract Consent Reviews 186
c. Quality of Engineering Specifications 187
d. Modifications and Upgrades Program 188
e. Contract Award and Negotiation 188
f. Litigation Issues 189
g. Award Fee 189
h. Oversight of Contractors 189
i. Contract Administration in the Field 189
j. Contract Closeout 191
k. Procurement Planning 191

5. Power Contracts 192

a. Status of Contracts 192
b. Contract Administration 192
c. Site Operations Related to Power Supply 192

(1) Construction Phase 192
(2) Operating Phase 192

d. Studies 193
e. Deficiencies 193

6. Recommendations 193

C. Audit Coverage and Audit Resolution 194

1. Historical Development 194
2. Current Status 195

a. Audit Coverage 196
b. Audit Resolution 198
c. DARTS Reporting 200
d. Relationship with Audit Organizations 201

3. Recommendations 201

D. Legal Support 202

1. Historical Development 202
2. Current Status 203
3. Recommendations 208

Page

E. Property Management and Control 209

1. Personal Property 209

a. Historical 209
b. Current Status 210
c. Recommendations 213

2. Real Property 216

a. History 216
b. Current Status 217
c. Recommendations 217

F. Finance and Budget 218

1. Organization and Personnel 218
2. Financial Management 221
3. Contract Finance Activities 228
4. Budgetary Background and Accomplishments 229
5. Areas for Improvement in the Budget Process 233
6. Recommendations 235

G. Industrial Relations 236

1. Background 236
2. Current Status 237

a. Labor Relations 237
b. Labor Standards 238
c. Contractor Personnel Administration 240

3. Conclusions and Recommendations 242

H. Performance Evaluation 244

1. Award Fee Administration 244

a. POSSI Contract 244

(1) Scope of Assessments 245
(2) Contractor Performance 246

b. Thacker Contract 247
c. Wells Fargo Contract 248
d. Conclusions 249
e. Recommendations 249

2. Contractor Evaluations 250

Page

I. Internal Control Guidelines 250

1. SPR Vulnerability Assessments 250
2. SPR Internal Control Reviews 251

a. Operations and Maintenance 251
b. Procurement 251
c. Budget, Finance, Accounting, and Funds Control . . . 252
d. Personnel Administration 252
e. Other Scheduled Internal Control Reviews 252

3. Federal Managers Financial Integrity Act 253
4. Conclusions 253
5. Recommendations 253

VIII. Overall Project Management 255

A. General Management Review 255

1. Establishment of Overall Goals, Objectives, and Plans . . 255
2. Engineering and Construction 257
3. Operations 260
4. Management and Administration 262
5. General Issues 264
6. Recommendations 266

B. Project Management Systems 268

1. Project Planning and Control 268

a. Project Control 269
b. Project Plan 269
c. Project Management Plan 269
d. Configuration Management and Interface Control . . . 270
e. Milestone Identification and Control 271
f. Master Schedule 272
g. Cost Estimating and Forecasting 273
h. Documentation Tree and Data Management 273
i. Recommendations 274

2. Systems Integration and Control 275

a. Requirements 275
b. Work Breakdown Structure 276
c. Cost and Schedule Control Systems Criteria 278
d. Recommendations 280

Page

3. Reporting 281

a. Requirements 281
b. Contractor Reporting 281
c. Project Office Reporting 181
d. Data Analysis 282
e. Recommendations 282

C. Integration of Contractor Effort 283

IX. Compilation of Recommendations 285

X. Glossary 305

I. FOREWORD

The Oak Ridge Operations Office (ORO) was assigned overall responsibility for implementation of the Strategic Petroleum Reserve Project (SPR) by the Secretary of Energy on June 15, 1983. One of the actions immediately initiated by the Manager of ORO, was the establishment of a Task Force under a charter which included directions to conduct a review of the Strategic Petroleum Reserve Project Management Office (SPRPMO) in New Orleans, Louisiana, and to compile a report which would establish a baseline of the PMO status at the time of this major management transition. The purpose of this report is to document those findings and recommendations for use by the Manager of ORO.

The Task Force was also chartered to conduct a full and complete review of all allegations of mismanagement and misconduct since inception of the program in 1977. The review of each allegation of misconduct and mismanagement will be documented in a second report which will be issued at a later date.

Information contained in this report was gathered by Task Force members who were experienced in their assigned areas. Members of the Task Force visited the Project Management Offices (PMO) in New Orleans as well as each of the SPR sites. Numerous interviews were conducted with most levels of the PMO personnel, and a substantial amount of documentation was provided to the Task Force for review. Special expertise from the ORO matrix organizations was also utilized in the acquisition and analysis of the subject information and in the preparation of specific sections of this report.

By necessity, this report covers a broad range of project activities; therefore, within the allotted schedule, it was impossible to conduct an in-depth review and analysis of all of these areas. It is believed, however, that the materials contained within this report are representative of many of the conditions which prevail at the SPRPMO and should serve as a useful basis for management decisions.

II. EXECUTIVE SUMMARY FOR MANAGEMENT BASELINE REPORT

STRATEGIC PETROLEUM RESERVE
PROJECT MANAGEMENT OFFICE

INTRODUCTION

The SPR Project was created by the Energy Policy and Conservation Act (Public Law 94-163), enacted on December 22, 1975. Congress stated in the Act its objective:

> "Congress finds that the storage of substantial quantities of petroleum products will diminish the vulnerability of the United States to energy supply interruptions, and provide limited protection from short-term consequences of interruptions in supplies of petroleum products."

The SPR, as of September 30, 1983, has over 360 million barrels of oil in storage representing over 90 days protection against a near total interruption of oil imports. Oil fill for FY 1983, exceeded the Congressional mandate of 220,000 barrels per day. The coordination of petroleum procurements with shipping, terminalling and storage is well organized and functioning in a professional manner. These significant achievements are attributable to the hard work and dedication of SPR employees both past and present.

Our examination of physical hardware at the sites, including management systems designed to support an ordered drawdown, results in varying levels of confidence for each site's ability to react to and sustain a drawdown. Bayou Choctaw was examined in concert with the DOE Inspector General (IG) and appears to be a reliable site. The examination included a physical movement of oil to St. James Terminal. A separate report on this matter has been issued by the IG. Additional detailed evaluations are planned for both Bryan Mound and West Hackberry which are sites of most concern. Additionally, the paper work system to implement a drawdown was within the limited parameters of the exercise and successfully demonstrated in DIREX-B, an exercise outside the scope of the Task Force review.

The findings of deficiencies and recommendations for corrective action contained herein provide management options for improving the reliability, efficiency and continued operability of the Reserve. If the Reserve is to remain operable and provide protection from import disruptions into the next decade and beyond, then certain practices and procedures must be altered now to assure long-term readiness for a drawdown.

It is believed that the thoughtful implementation of the many recommendations contained in this Baseline Report will improve the operability and increase the useful life of the Reserve. This summary provides an overview of the more significant issues detailed in the body of the report.

MANAGEMENT OBJECTIVE - OIL IN THE GROUND

The Reserve project activities started with a Congressional mandate to "get oil in the ground" and provide additional oil storage capacity as rapidly as possible. Success in the early phases of developing the Reserve was measured against these two important goals, which are indeed critical to the success of the Reserve Program. The commitment to these goals resulted in taking larger operational and administrative risks than would normally be expected in Government operations. Consequently, management decisions suffered and some costs exceeded expectations, exposing PMO to criticism from the various audit and oversight agencies.

The narrow management emphasis on leach/fill goals continues in the Project Management organization. Although the Project Manager claims this is not the case, there is significant evidence that this singular goal does prevail, especially in the Engineering and Construction (E&C) and Operational activities. This approach is judged by the Task Force to be detrimental to the achievement of the total SPR mission: "oil in the ground" and sustained capability for drawdown.

One of the most graphic examples of this is the maintenance activity which suffers from neglect and lack of management attention. Maintenance should be extremely important in a system such as the SPR which is to remain in an effective "standby" mode for up to 20 years, fully capable of drawdown upon command.

The narrow focus of management's attention on getting "oil in the ground" has also been at the expense of PMO's business and administrative function (i.e., finance, procurement, property management, response to audits, etc.). In this regard, errors of omission and commission in providing oversight and monitoring of contractor accounting systems, cost controls, contractor inventory systems and prime contract administration have created serious problems and provided a basis for continued and renewed criticism by audit agencies.

Management goals must be broadened. It is imperative that the prime SPR objective include not only getting "oil in the ground" in accordance with Congressional mandates, but also the SPR must "be ready" to sustain a drawdown. Being ready, like "oil in the ground," implies that numerous supporting systems are viable and in place. The business-related functions provide the base to support operations and their importance cannot be minimized without serious impacts on operations and cost to the Government. Accordingly, the Task Force proposes the following management objectives:

- o meet oil storage goals
- o maintain readiness for drawdown
- o maintain cost effective business management practices

These expanded though simple and straightforward goals must be recognized and promulgated throughout the project implementation offices of both Government and contractor personnel.

FRAGMENTATION OF MANAGEMENT EFFORT

There is substantial evidence that the effectiveness of PMO management is in large part diluted because of a fragmentation of its effort. The large number of interrelated contractors and the tendency of PMO senior management to involve itself in management of low-level details (micro-management) of both DOE and contractor activities has been at the expense of overall Project planning and execution.

The large number of PMO prime contractors, with accompanying responsibilities, require significant PMO management oversight and integration activities. The impact of this involvement is influenced by PMO's inefficient utilization of contractors. There appears to be an attitude that some contractors cannot perform properly without detailed operational decisions being made for them.

Accordingly, PMO has issued over 80 Technical Directives to the Operations and Maintenance (O&M) contractor, Petroleum Operations Support Services (POSSI), many of which provide for directions on routine activities which are viewed to be standard contract support. All Engineering Change Proposals (ECPs) estimated to cost more than $10,000 must be staffed through PMO, in accordance with the Project Configuration Control Board (PCCB) procedures, to the Project Manager. Additionally, all actions, regardless of dollar amount involved, which modify process piping systems, instrumentation systems or other systems that may adversely affect safety or performance must also be submitted to the Project Manager through the PCCB. For example, if POSSI finds that a 1-inch cast steel valve in a brine line is badly corroded, they cannot replace it with a stainless steel valve without processing an ECP through the Project Manager or his Deputy.

The fragmentation and dilution of senior management effort is made more significant by the reluctance to delegate and the concentration of authority in New Orleans. The decision-making process at PMO is concentrated at the top of the organization and minimum responsibility is delegated below the Assistant Project Manager (APM) level. An extensive array of subjects and products are baselined under the configuration management system. Changes require approval of the Project Manager or his Deputy, even down to decisions that could easily be made by division directors or by senior site representatives. However, the Task Force does recognize that PMO was unduly influenced by the memorandum of June 26, 1980, between DOE (signed by the then Deputy Assistant Secretary, SPR Resource Application) and DUCI. The subject document provides the precedent for the current centralized organization.

The authority of the Senior Site Representatives (Site Operations Branch Chiefs) is inadequate. The APM-Operations has given instructions to them that they are not to give commands (or directions) to the O&M contractor. All decisions of significance are made in New Orleans. The remoteness has resulted in time delays to get even routine jobs done. For instance, at West Hackberry brine is migrating from the site because of a leak at the low pressure brine pump station. The DOE Senior Site Representative is without authority to order POSSI to dike the station to prevent the migration of brine. Similarly, POSSI is without authority to take action on its own. The level of configuration control is not consistent with the operational needs of the site.

The Task Force's recommended solution for the fragmentation of contractors and the propensity of PMO to micro-manage some contractor activities would be to combine and centralize contractor activities in one consolidated operations, management and maintenance contractor, coupled with a structured system of DOE management oversight. Such an approach to the management of SPR activities for DOE would permit a more efficient and effective use of resources. The scarcity of Federal employees at PMO does not support continued micro-management. Many of the contractor-cooperation problems and associated DOE oversight difficulties would be eliminated if a consolidated contract approach is used. A contractor with broader authorities for management activities would reduce PMO management's incentive to involve itself in low level decision-making activities and free it to concentrate on the problems of planning and control.

The work scope, terms and conditions included in the various special purpose contracts limit flexibility to meet changing conditions. Consequently, the Federal staff, with little flexibility to respond, is faced with bridging the gaps. Day-to-day low-level operational and administrative issues between contractors escalate to PMO for resolution. With 53 active contracts, the number of interface points is significant.

The selection and award of a consolidated and integrated contract for operations, management and maintenance of the SPR is not a panacea. PMO management must reassess its role and clearly define and execute its management and administration function to provide more efficiency in this effort.

MAINTENANCE

The attention to maintenance-related activities by PMO is judged to be unsatisfactory. The condition of equipment and facilities varied significantly from site-to-site and item-by-item. As a result of neglect, some equipment and facilities have deteriorated to a point they will not operate. In a few cases, the structural integrity of piping, valves, fittings and other items is in question due to lack of maintenance. Despite this, maintenance is not a high priority item. This, in large part, results not from the lack of money but rather from the lack of maintenance policy, goals, criteria and priorities by PMO.

The Task Force review of the maintenance system revealed a significant backlog of corrective maintenance (CM) items. The backlog of CM work orders during the review is on the increase and totaled 1,659 for all sites. The backlog is estimated to further increase (by 20 to 30 percent) as a result of items identified during this review.

The root cause of this backlog is twofold; first, the lack of CM in the past, and second, the lack of a coherent PMO policy defining an acceptable maintenance program for the Project.

The Task Force believes the O&M contractor has been unreasonably constrained in both manpower and budget authority. The majority of discrepancies observed during the site reviews are known to exist by PMO and POSSI Site Managers, but they have been constrained in their efforts to correct them because of DOE-imposed contractor manpower levels which have been decreasing since late 1982.

Maintenance at two sites, Bryan Mound and West Hackberry, was unacceptable. Operational reliability of certain equipment and facilities at both sites could well impact leach/fill operations or drawdown if not corrected soon. At the West Hackberry high pressure brine pump station, the corrosion is so serious one high pressure relief valve may fail if not replaced. At Bryan Mound one of the main 2,000 gpm fire water pumps has been out of service for five months. The back-up 4,000 gpm diesel fire water pump has been out of service for one year. The other main 2,000 gpm fire water pump, located at the raw water intake structure (RWIS), must be started by hand. The reliability of this pump (BMP-36) is questionable since its control cabinet is severely corroded. An auxiliary diesel pump (2,500 gpm capacity) is onsite and uses pond water but must also be started at a remote location. The system provides the specified flow rate for fire protection but the implications of lack of automation are extremely serious. Low manpower levels at the site during the second and third shift makes automatic fire protection critical.

The Task Force generally concluded that Bryan Mound is the worst maintained site in the SPR, yet the Award Fee Performance Evaluation Board's findings for the January through March 1983 evaluation do not reflect this. The evaluation states (in part):

> "The performance of field personnel and the maintenance of facilities and equipment has been outstanding and is evidenced by the leaching and oil injection rates sustained during this quarter."

The importance of the preventative and CM function must be immediately reprioritized by PMO. Without increased emphasis on maintenance some loss of drawdown and leach/fill capacity should be anticipated in the coming years. PMO should develop an effective maintenance policy and implement plans to reduce the maintenance backlog to assure the reliability of the Reserve through this decade and into the next.

In implementing an effective maintenance policy, an in-depth multidisciplinary review should be conducted at all sites to identify and prioritize CM items. Safety critical items (fire protection) must be elevated to the highest priority, even if done at the expense of leach and fill operations. In addition, the effectiveness of POSSI's maintenance personnel needs to be assessed. This will provide POSSI and PMO two parts of the equation for an effective maintenance program; first, the actual workload and second, the effectiveness of the work force. In addition, the adequacy of the maintenance work force must be determined based on specific time-phased objectives. In this regard, PMO must anticipate a relaxation of the imposed constraints imposed on total maintenance personnel.

PROPERTY MANAGEMENT

Little attention was given to property management in the early days of the Project. No formal, well documented Project property plan or program has ever been in existence.

Today, as reported by PMO, personal property worth $29M is controlled by 11 prime contractors located at 10 different sites. There is no system within

PMO's Finance Division that provides for validation of contractor-reported inventories. Thus PMO cannot validate contractor inventories; it must rely on the information provided by the contractor through the DOE semiannual property reports.

"Lessons learned" from past problems failed to get translated into more effective practices. The Big Hill site reflects a lack of planning in regard to the property management function. At present, PMO has a fixed price (FP) drilling contractor onsite using Government-furnished material which is received and issued by the design Architect-Engineer (A-E). POSSI, which would normally perform this task at sites where it is responsible for operations, has not been mobilized by PMO.

The Task Force recommends that PMO develop a formal property program including a system for the implementation of property policy throughout the SPR. The system should assure consistency among all SPR prime contractors and within the PMO property organization on how issues are to be resolved. The system should also include an implementation and supplementation of the DOE Property Management Regulations.

PROCUREMENTS AND CONTRACTS

PMO has not implemented some of the better practices for DOE's protection contained in Government procurement policies concerning contract formation and administration. The priorities of PMO management in conjunction with the flexibility it demands have resulted in excursions from the norm.

Current PMO contractual arrangements do not provide satisfactory advance understandings on major financial items such as general and administrative costs overhead, compensation, travel and relocation costs essential for effective oversight and assurance that costs are reasonable. While procurement regulations do not require advance understandings, such agreements are certainly desirable in areas where the reasonableness of cost is a major factor in determining allowability (salaries). Advance agreements are particularly important when the question of reasonableness of certain costs are in connection with organizations that do not have adequate competitive restraints. This is particularly true of POSSI, which is an organization created specifically for the O&M contract at the SPR.

With regard to the POSSI contract, Defense Contract Audit Agency (DCAA) and PMO Procurement Division, both believed that an advance understanding should be reached with POSSI on salaries. Senior PMO management overrode this advice and no advance agreement was reached. The Task Force does not believe this decision was in the Government's best interest.

The issue of POSSI salary compensation has received much scrutiny and criticism from audit agencies. The President's Private Sector Survey on Cost Control (Grace Report) has also focused on this issue. Despite this attention the reasonableness of salary ranges, particularly for top management, has still not been resolved some 21 months into the contract.

The administration of prime contracts is weak. The deficiencies observed appeared to be caused by several factors. Primarily the deficiencies stem from PMO management's desire to retain centralized authority in New Orleans. This is evidenced by the limitations associated with delegations of Contracting Officer (CO) authority to field personnel. The Senior Site Representatives have no authority to direct or manage the normal day-to-day routine O&M activities of the O&M contractor at the sites. Additionally, deficiencies also seem to develop as a result of PMO's demand for flexibility in decision-making.

As an example of the latter, Walk, Haydel and Associates, Inc. (WH&AI) (the design A-E for Big Hill) Title III personnel have been directed to perform services outside the definition of Title III services contained in the DOE Procurement Regulations. Specifically, Title III personnel are performing construction management, property management and other operation activities at the Big Hill site. These activities are evidenced by the management of property and inventory at the Government-furnished equipment laydown area and by the awarding and administering of subcontracts and the administering of a prime contract for on and offsite road maintenance. Senior PMO staff acknowledged this was done consciously in order to provide management the flexibility to perform needed work at Big Hill.

The two examples above illustrate some of the current contracting and procurement problems at PMO. Clearly, arriving at advance understandings on specific cost elements would have aided PMO in avoiding many problems that are currently being encountered. It is essential that such agreements be negotiated and included in any future contracts. Activities which are likely to stir up controversy and expose the Project to additional criticism should be avoided. Oftentimes little or no additional effort is necessary to get a task done in an acceptable manner.

AUDIT COVERAGE AND AUDIT RESOLUTION

PMO has not adequately managed audit coverage given to its contractors. Reliance has been placed on DCAA to determine if and when audits of contractor-incurred costs are necessary. PMO is unable to readily identify audit status of its contracts and as a result has received much criticism in this area.

The audit follow-up process, which is intended to protect the Government's interest in recouping determined unallowable costs, is not being scrutinized closely enough to assure its effectiveness. In light of weaknesses in contract and financial management, the laxness of sound follow-up practices makes the PMO more vulnerable to possible waste, fraud and contractor error. PMO did not begin entering its audit reports into DARTS until April 1982, approximately one and one-half years after DOE implemented the system.

SECURITY

Security at the sites has been a continuous problem since the inception of Project activities. The PMO Security staff and the PMO Senior Site Representatives are not taking an active enough role in operational security matters but rely extensively on prime contractors, POSSI and Wells Fargo Guard Service

(WFGS), for planning and implementing security measures. In some instances security problems have not been identified or corrected in a timely manner, reflecting a lack of security coordination among all parties involved. Reporting practices and knowledge of procedures to follow regarding theft of Government property have been inconsistent and poor. WFGS management believed that theft of Government property need not be reported to the FBI unless the value exceeded $2,500. In some instances, thefts of Government property were not reported to the FBI for days or weeks, if at all. For example, WFGS did not report theft of Government property which occurred offsite, because they assumed such property was excluded. WFGS continues to authorize the arming of protection force personnel prior to a DOE clearance being granted.

Implementation of security measures at the sites are in a catch-up mode, because security was not integrated at the sites during construction. This statement also applies to telecommunications as typified by the Big Hill site, where communications are still not in place.

Major problems in the Physical Protection System (PPS) and site security practices have also been identified by the Task Force and are detailed in the Classified Security Attachment to the Baseline Report. Details of these latter observations are not summarized here because of the classification of the information. Suffice it to say the deficiencies noted above and in the Classified Security Attachment reflect inadequate management attention to both Security and Telecommunications.

PMO management should take a more active role in the operational security matters including increased monitoring of activities through more frequent site visits. The PMO Security staff should be more actively involved in the administration of the guard force. They must assure themselves that all site personnel are "security aware." WFGS protection personnel must be aware of all reporting requirements and procedures.

FIRE PROTECTION

The SPR sites do not meet "improved risk" level of fire protection as required in DOE Order 5480.1A, Chapter VII. Major fire protection deficiencies with loss potentials well in excess of $1,000,000 with serious programmatic effect exist at every site except Big Hill.

PMO has a program for identifying fire protection deficiencies. Once these deficiencies are identified they are placed in a priority system with other modification activity. PMO has no criteria for establishing priorities. They are established on the basis of internal negotiation and are subject to changing perceptions. As an example, Phase III design and construction activities at West Hackberry, Bryan Mound and Bayou Choctaw were pursued very aggressively. As a result, many of the safety-critical items remain to be accomplished because resources which might have been used to correct some of the known fire protection deficiencies were used to put "oil in the ground." Some safety risks were knowingly accepted to meet the SPR mission. There are numerous examples where vital fire protection equipment and/or systems have been out of service for a long time (see MAINTENANCE, supra.). The repairs to

these systems should be done on an emergency basis with temporary protection provided if possible. Impairments to vital fire protection equipment/systems for extended periods could result in a major fire loss.

A strong PMO effort is needed to complete the fire protection tasks on the design/construction priority listing. An in-depth site review should be conducted to identify any other deficiencies that exist to ensure essential fire protection capability at all sites.

Impairments to vital fire protection equipment/systems should be controlled in accordance with "improved risk" standards. A plan should be developed to increase management's commitment to the safety and fire protection program. Vital fire protection repairs and improvements should have high priority, even if they must be done at the expense of leach and fill operations.

UNRESOLVED PROBLEMS

Major problems are allowed to continue unresolved after they have been fully identified, for excessive periods of time. PMO has not been sufficiently aggressive to bring to a conclusion some of the more significant problems challenging the Project (see following discussion on PPS and fire protection). Additionally, PMO has not demonstrated adequate initiative to identify all problems and relies too heavily on the audit function to identify and/or correct them.

The PPS is an integrated system composed of protective barriers, clear zones, signs, gates, protective lighting, Security Operations Centers (SOC) and electronic intrusion detection/assessment equipment at each site. The main focus of this system is on the intrusion detection devices consisting of taut-wire fences, microwave and infrared sensors, miscellaneous door switches and alarms and closed circuit television (CCTV). The present array of contractors used and functions performed are having a heavy impact on the problems which have developed. The system was designed by Jacobs D' Appalonia (JDE) and Sandia Laboratories, constructed by Thacker (and its subcontractors), and will be maintained by POSSI and operated by Wells Fargo. Although the details of the defects are contained in the Classified Security Attachment, problems have yet to be resolved at many sites.

The PPS suffered from lack of coordination by PMO in the design and construction, and a failure to aggressively resolve the defects. Electrical cabling was oftentimes inadvertently cut by site construction personnel, resulting in numerous splices. Many splices later proved defective. Through a failure to adhere to design parameters the SOCs in two instances were not constructed in the desired location. For this reason and others stated in the Classified Security Attachment, SOCs may be vulnerable.

The problem of responsibility for portions nearing completion has not been addressed at the site level. There is evidence of much confusion at the sites, and a misunderstanding of responsibility for unaccepted but working segments of the system. PPS is substantially late in becoming fully operational at several sites.

Serious problems in the fire protection system at the West Hackberry site have not been properly corrected. The design/construction deficiencies pose a risk to fire protection at the site. Major punch list items have either never been finished or corrected. A test is scheduled for October 3, 1983, to confirm if the system will function as specified.

PMO should initiate changes in policy and procedure which will result in the expeditious resolution of major problems. Management practices must be established that will preclude major problems from going unidentified and unresolved over extended periods of time.

FINANCIAL MANAGEMENT

From the very early days of the Project, PMO has been beset with difficulties in maintaining financial control over its major cost-type contractors. There have been significant problems with contractor accounting systems, misuse of Letter of Credit (LOC) and lack of property controls. Substantial amounts of contractor costs are currently being reviewed by DCAA, Defense Contract Administration Services (DCAS) and PMO for reasonableness and allowability.

PMO management has been preoccupied with the goal of placing "oil in the ground." As a result, there has been insufficient attention to maintaining adequate financial controls over cost-type contractors. The need for increased controls in this area has been conveyed to top management through many reports by external oversight organizations (DCAA, IG and Government Accounting Office (GAO)). We have seen some recent evidence of increased management attention to financial matters, e.g., meetings now being held with audit organizations.

The inadequacy of POSSI's accounting system was partially identified by DCAA in December 1981, prior to execution of the contract. DCAA's audit report on POSSI's proposed accounting system stated that the contractor did not yet have an established, operational accounting system. All subsequent DCAA audit reports on POSSI's accounting system addressed deficiencies. PMO placed too much reliance on expected DCAA follow up. Rather, PMO should have initiated an intensive effort to review POSSI's accounting system. POSSI was placed on the LOC financing arrangement in April 1982. However, POSSI was not informed at the time, nor since, that its accounting system has final Government approval, although such is stated in the contract as a prerequisite for placing the contractor on the LOC. In view of unresolved deficiencies disclosed by DCAA in their qualified audit reports on the POSSI accounting system, the PMO action in this instance is considered an example of poor contract administration.

Good progress has been made by POSSI during recent months to correct the accounting deficiencies.

PMO must approach its management function with a more realistic balance of all the constituent subfunctions. Financial management is acutely important to the continued viability of the SPR, particularly in the areas of oversight and monitoring of contractor accounting systems, cost controls, cost claims, etc.

Increased attention should be given to the adequacy of contractor accounting systems, particularly at the time of contract award. Disclosed accounting deficiencies should be corrected at the earliest possible time.

Financial controls would be greatly strengthened by combining activities of several present contractors under a single consolidated operations, management and maintenance contractor required to maintain an accounting system integrated with control accounts maintained by DOE, as noted in Section VII.F. Finance and Budget, of this report.

MODIFICATIONS AND UPGRADES

PMO has failed to aggressively pursue the Modifications and Upgrades (M&U) Program. PMO believes that the remaining work, although needed, is not critical to the operation in terms of leaching and oil fill and schedules for performance can be shifted as priorities and resources fluctuate.

The present system for prioritizing construction tasks needed to bring all sites to a satisfactory "stand-by" condition is confusing and is regularly modified by the APM-E&C. In practice, the list only serves as a guide because availability of JDE (design A-E) resources often precludes activity on certain tasks and allows activity to proceed on lower priority items. The program suffers because there is no integrated plan for each site to achieve the goal of "stand-by." Accordingly, there is no effective way to determine budget requirements and develop plans for resolving site needs in a timely, organized way.

Because of personnel constraints neither JDE nor PMO staff have been able to complete front end paper work related to the construction task proposal preparation, evaluation, negotiation and authorization process with Thacker.

Additionally, future plans call for a significant phased reduction in JDE manpower through completion of the contract in June 1984, particularly in the area of design support. Accordingly, the M&U Program has not progressed at a pace consistent with the budget availability and there is little likelihood of it accelerating in view of JDE's personnel reductions.

The M&U Program should be accelerated to utilize available and projected budgets. A time-phased plan is needed at each site detailing the E&C activities necessary to arrive at "stand-by" conditions. As a part of this planning, a multidisciplined team should be created and chartered to review physical "as-built" systems to identify work needed to achieve the "stand-by" condition. The present design/construction priority list concept utilized by PMO should be eliminated. All work performed on M&U should be performed in accordance with the plan developed in response to the above recommendation. To aid in the planning, consideration should be given to categorizing work in functional areas such as safety, fire protection, performance requirements, etc.

Broader A-E support should be obtained for the M&U Program. High priority work such as Phase III expansions, safety or environmental upgrades should be satisfied with less impact on lower priority site completion type work. Use

of a Cost Plus Award Fee (CPAF) construction contractor should be continued for certain type work. The Task Force does not believe that all M&U work is appropriate for FP construction contracts. Additionally, the M&U Program would benefit by having a consolidated O&M contractor with enough in-house technical staff to assess and conceptualize tasks for A-E design.

PROJECT MANAGEMENT SYSTEMS

The planning and control activities were probably inadequate in the early stages of the Project. The first concerted effort to institute and document the appropriate controls to be used appeared in late 1980, about four years after significant work had begun. Little can now be done to recoup the planning and control benefit lost as a result of this late start. Early development and implementation of effective project planning and control would have significantly enhanced PMO's management activities.

The present management control systems are partially ineffective, although they represent a substantial improvement over the early effort. The Project Summary Work Breakdown Structure which defines the work to be done, does not define facilities, systems, and subsystems which can be used to integrate cost, schedule and technical performance data of all contractors. In essence, the intermediate level of planning and control is missing. The omission impacts cost, schedule, technical performance measurement, and proper evaluation of Project status and performance is inhibited.

The configuration management system is unwieldy and requires in some areas micromanagement decisions to be made by the Project Manager or his Deputy. Many of these decisions could easily be delegated to personnel at a subordinate level.

An up-to-date baseline for the project cost estimate should be established based upon "bottoms-up" estimates by project participants who are responsible for the work. It should include a new assessment of the M&U work as well as a new look at maintenance. This new forecast should be updated annually and reconciled to the previous estimate.

ORGANIZATION AND STAFFING

The PMO is basically organized along the same major operational and administrative lines as Oak Ridge. With minor exceptions, key elements of the PMO have a similar counterpart at Oak Ridge.

Consequently, the flow and exchange of information between New Orleans and Oak Ridge should be unimpeded by organizational barriers. The most important aspect is recognition of the system and processes needed and the role of key management officials to establish the right environment for good communications and coordination needed to achieve a synergistic team result.

Some communication problems and lack of effective coordination have existed in the PMO. A tendency to bypass the organizational lines at times has resulted in communication gaps. Information flowing out of the PMO at times appears incomplete (see discussion of ILS Program on pages 154-157).

The staffing levels needed for the PMO are uncertain at this time. Several PMO organizational elements have expressed the need for additional staff. However, the observations of the Task Force suggest that the total PMO staffing should be studied in lieu of decisions on a fragmented basis. There may be additional areas where increased contractor support will suffice. Also the potential for reducing the workload by a different approach needs to be considered. Some of the expressed needs may be met by shifting of resources to accommodate temporary or short-term situations.

CONCLUSION

Significant achievements have been made in the SPR Project. PMO has certainly played a significant role in the accomplishments to date. Many of these achievements have been made under difficult technical, logistical and administrative circumstances.

The Task Force has made findings during this review which indicate the oil now in storage can te withdrawn. However, confidence levels vary for each site as to the ability to react to and sustain a drawdown. Over 360 million barrels of oil is in storage which provides a significant reduction of the vulnerability of the United States to an interruption of imported petroleum products. The identification of deficiencies in the Reserve attributable to PMO is not intended to diminish or tarnish the effort expended toward the planning and implementation of the Project. It is felt that this review will provide options for improving the reliability, efficiency, and continued operability of the Reserve through the years ahead.

The members of the Task Force received courteous treatment by PMO personnel throughout the duration of the review. The cooperation was welcomed and eased our work considerably. It is our opinion that through renewed management effort and teaming the Oak Ridge staff with the PMO that the Reserve will continue to meet the objectives for which it was planned through this decade and the next.

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